

San Francisco Bay Area Rapid Transit District
Annual Report 2010



San Francisco Bay Area Rapid Transit District

Annual Report for the Years Ended June 30, 2010 and 2009

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Executive Summary

The national economic crisis affected all sectors of the transportation industry and caused lower sales tax receipts, lower ridership and a significant reduction in state funding assistance. All these factors lead to BART's \$250 million projected budget deficit over the next four years.

This fiscal year started out with a 6.1% fare increase for BART customers. The increase translated to customers paying an average of 20 cents more per trip.

The BART Board has directed that two-thirds of the deficit be addressed through internal cost-cutting measures, such as a reduction in the evening and weekend service schedule by returning them to pre-2008 20-minute intervals. Other measures include raising and expanding parking fees and negotiating concessions by labor unions as contracts were renewed this year.

BART proposed modifications to employee health benefits that would make employees pay the difference between the monthly costs of the lowest group plan (currently Kaiser) and other available plans if they choose to participate in them. In addition, the District asked to eliminate or change costly work rules. Also on the table are changes to employee contributions toward their retirement and pensions.

As a result of aggressive cost-cutting measures and negotiated employee concessions, the savings goal of \$100 million over the four-year contract term was reached and the District ended the fiscal year with a \$4 million budget surplus.

FY 2010 HIGHLIGHTS

Leadership

In December, the BART Board of Directors elected its longest-serving member, James Fang, to serve as its new president. Mr. Fang was first elected to the Board in November 1990 and represents the 8th BART District, which includes portions of San Francisco.

The Board also unanimously elected Bob Franklin as vice president. Mr. Franklin was first elected in November 2004 and represents the 3rd BART District, which covers Kensington, Piedmont, San Leandro, San Lorenzo and portions of Berkeley, Oakland, Hayward and Castro Valley.

This fiscal year saw the start of live-streaming of Board meetings over the Internet beginning in May 2010. This was part of a larger initiative to increase the transparency and accountability of Board proceedings.

In June, BART welcomed a new chief of police, Kenton Rainey. Chief Rainey promises to lead the 296-member BART police force into an era of change that will rely heavily on the principles of community-oriented policing.

Community Service

BART stepped up efforts to reach communities defined in Title VI of the Civil Rights Act, specifically Limited English Proficiency (LEP) and low-income individuals and community groups. In an ambitious effort, BART held a series of 17 community events in just 22 days in March and April of this year. The events were intended to ask the community members how best to reach out to them for input on fare or service changes that often have a disproportionate effect on them. The District provided refreshments, child care and translation services in order to encourage full participation.

Then in June and July, the District held another 18 community meetings in 12 days in order to give the communities an opportunity to help define a “major service change,” and to see if a plan to offer a temporary fare reduction in appreciation of our riders made sense to them.

Other community outreach this year included the offer of a free \$50 transit ticket to military personnel on leave from Iraq and Afghanistan. BART is the first major transit agency in the nation to offer such a benefit.

The entire BART community will benefit from expanded wireless access within the Transbay Tube. AT&T, T-Mobile, Sprint/Nextel and Verizon all activated networks within the tunnel, thus providing seamless above- and below-ground mobile service for BART customers riding between West Oakland and San Francisco’s Balboa Park Station.

System Expansion

The Oakland Airport Connector project became a reality when the BART Board of Directors voted to award the contract to design and build the line to California-based Flatiron/Parsons Joint Venture and the contract to operate and maintain the connector to Doppelmayr Cable Car, Inc. The connector will replace the AirBART buses with electric cars that run on a fixed, elevated guideway that runs above the traffic congestion below.

Construction continued on the West Dublin/Pleasanton Station with the night-time closure of Interstate 580 to allow placement of the bridges over the highway that will allow passengers to cross safely to the station, which is located in the freeway median.

The final Environmental Impact Report (EIR) was published on the extension of BART to Livermore, marking another milestone in that long-awaited project.

Service

BART provided additional service while Caltrans closed the Bay Bridge over the Labor Day weekend. Overnight service was offered to 14 stations between midnight and 4 a.m. during the construction period. Then, when emergency repairs were needed on the bridge in October, BART stepped up again with overnight service for weekend travelers.

In September, BART returned off-peak service to pre-2008 levels, saving money by having trains run every 20 minutes instead of every 15 minutes. The change also allowed the return of a direct train connection between Millbrae and the San Francisco International Airport Station during off-peak hours.

Bay Area residents celebrated the San Francisco Giant's World Series victory over the Texas Rangers with a parade down Market Street on November 3, 2010. That Wednesday, BART proudly carried the most riders of any day in its 38-year history—522,200—while maintaining a customer on-time rate of better than 90 percent.

Capital Corridor

Fiscal Year 2009 was a year of mixed results for the Capitol Corridor. Although performance in FY 2009 was not as strong as FY 2008, the positive growth trend from FY 2007 continued and reinforced the delivery of a high-quality passenger rail service.

In FY 2009:

- Overall ridership fell 5.5%, revenue was flat, and revenue-to-cost ratio fell to 47% primarily due to increased labor expenses and revenues that were below projections.
- On-time performance reached an all-time high of 93% thanks to the capitalized maintenance program (now unfunded) and improved Union Pacific Railroad dispatching. This makes the Capitol Corridor the most reliable multi-frequency train service in the Amtrak national system.
- Customer satisfaction scores continued to improve, despite poor economic conditions and extensive job losses in the region.

Looking Forward

BART has received initial funding to begin the design process for our “Fleet of the Future,” the replacement of our existing 669 train cars which are the oldest in the nation. The BART Board of Directors has mandated a robust public participation process as an integral part of this program and plans are already in place to create opportunities for the public to give BART feedback on design features. These cars will need to serve our growing ridership while maintaining and surpassing our goals of cleanliness, efficiency and accessibility.



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To the Board of Directors of the San Francisco
Bay Area Rapid Transit District
Oakland, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (the District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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The management's discussion and analysis and the schedules of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

November 24, 2010

Introduction

The following discussion and analysis of the financial performance and activity of the San Francisco Bay Area Rapid Transit District (the "District") provide an introduction and understanding of the basic financial statements of the District for the years ended June 30, 2010 and 2009. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The District is an independent agency created in 1957 by the legislature of the State of California for the purpose of providing an adequate, modern, interurban mass rapid transit system in the various portions of the metropolitan area surrounding the San Francisco Bay. The District started its revenue operations in September 1972. It presently owns a 104-mile, 43-station system serving the four counties of Alameda, Contra Costa, San Francisco and San Mateo. The government of the District is vested in a Board of Directors composed of nine members, each representing an election district within the District.

The Financial Statements

The basic financial statements provide information about the District's Enterprise Fund and the Retiree Health Benefit Trust Fund. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

Overview of the Enterprise Fund Financial Statements

The *Statement of Net Assets* reports assets, liabilities and the difference as *net assets*. The entire equity section is combined to report total net assets and is displayed in three components—*invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets*.

The net asset component *invested in capital assets, net of related debt*, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net assets consist of assets where constraints on their use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This net assets component includes net assets that have been designated by management for specific purposes, which in the case of the District include allocations to fund capital projects, and other liabilities, which indicate that management does not consider them to be available for general operations.

Management's Discussion and Analysis (Unaudited)

For the years ended June 30, 2010 and 2009

The *Statement of Revenues, Expenses and Changes in Net Assets* consists of operating and nonoperating revenues and expenses based upon definitions provided by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis for State and Local Governments: Omnibus*. Accordingly, significant recurring sources of the District's revenues, such as capital contributions, are reported separately, after nonoperating revenues and expenses.

Statement of Cash Flows is presented using the direct method and includes a reconciliation of operating loss to net cash used in operating activities.

FINANCIAL HIGHLIGHTS

Statements of Revenues, Expenses and Changes in Net Assets

A summary of the District's *Statements of Revenues, Expenses and Changes in Net Assets* for fiscal years 2010, 2009 and 2008 is as follows (dollar amounts in thousands):

| | 2010 | 2009 | 2008 |
|-------------------------------|--------------------|--------------------|--------------------|
| Operating revenues | \$ 368,586 | \$ 348,238 | \$ 337,304 |
| Operating expenses, net | (647,839) | (666,379) | (653,219) |
| Operating loss | (279,253) | (318,141) | (315,915) |
| Nonoperating revenues, net | 232,380 | 239,111 | 284,525 |
| Capital contributions | 252,515 | 190,513 | 144,096 |
| Change in net assets | 205,642 | 111,483 | 112,706 |
| Net assets, beginning of year | 4,608,823 | 4,497,340 | 4,384,634 |
| Net assets, end of year | <u>\$4,814,465</u> | <u>\$4,608,823</u> | <u>\$4,497,340</u> |

Operating Revenues

In fiscal year 2010, operating revenues increased by \$20,348,000, which is primarily due to (1) an increase of \$13,924,000 in passenger revenue due to a 6.1% CPI-based increase on the general fare and a fixed amount increase on the SFO Premium Fare starting July 1, 2009; (2) revenue received from a land swap transaction amounting to \$4,112,000; and (3) additional insurance proceeds of \$2,435,000 from the Hayward fire.

In fiscal year 2009, operating revenues increased by \$10,934,000, which is primarily due to (1) an increase of \$8,637,000 in passenger fares due to the whole year effect in fiscal year 2009, as compared to six months in fiscal year 2008 of the 5.4% rate increase on January 1, 2008; (2) increase of \$710,000 in support costs reimbursements received from telecommunication projects; (3) increase of \$958,000 in parking revenue; and (4) receipt of Medicare reimbursements from CalPERS amounting to \$914,000.

Operating Expenses

In fiscal year 2010, operating expenses decreased by \$18,540,000, which is primarily due to (1) a decrease of \$5,715,000 in the employees' regular and premium pay and \$3,258,000 in overtime pay due to the elimination through attrition of a total of 210 positions throughout the year; (2) a decrease in the annual required contribution rates for other postemployment benefits from 17.70% to 14.96%, which amounted to \$5,312,000; (3) a decrease of \$790,000 in the CalPERS annual required contribution primarily due to a reduction in the contribution rate for the miscellaneous employees from 9.741%, first to 9.311% and then to 9.680%; (4) a decrease of \$1,087,000 in medical health insurance premium due to a plan change effective January 1, 2010, which limited the District's medical contribution to the highest Bay Area HMO rate under CalPERS; (5) a decrease of \$2,175,000 in employees' sick leave retirement buyback expense due to a program change effective October 19, 2009, which provides that an employee's unused sick leave hours at the time of retirement would be converted to CalPERS service credit instead of being cashed out at 50%; (6) a decrease of \$4,241,000 in system and traction electrical expenses for supplies and repairs and maintenance; and offset by (7) an increase of \$7,475,000 in feeder bus service expense, of which \$5,900,000 was paid to the Metropolitan Transportation Commission (MTC) as the District's contribution to MTC for lost State Transit Assistance funds it allocates to feeder bus operations.

In fiscal year 2009, operating expenses increased by \$13,160,000, which is primarily due to (1) an increase of \$13,071,000 in employee salaries and benefits which includes \$7,951,000 for 3% contractual salary increase on July 1, 2008, \$2,344,000 increase in medical health insurance premiums and \$2,766,000 increase in pension and other postemployment benefit contributions; (2) increase in repairs and maintenance cost of \$4,247,000; (3) increase of \$3,655,000 in other operating expenses primarily for traction electrical supply for \$2,149,000 and express bus and paratransit expenses totaling \$1,507,000; (4) increase of \$2,826,000 in depreciation expense; and (5) with offsetting expense reductions coming from an increase of \$5,400,000 in labor costs reimbursed by capital projects and an estimated insurance recovery from the Hayward fire amounting to \$5,565,000.

Nonoperating Revenues

In fiscal year 2010, nonoperating revenues decreased by \$6,731,000. The decrease is mainly due to (1) a decrease of \$17,766,000 in sales tax revenues because of the continuing decline in the Bay Area economy; (2) a decrease of \$14,727,000 in property tax revenues mainly due to a decrease of \$14,485,000 in property tax revenues earmarked for the payment of the General Obligation Bonds which follows the decrease in the scheduled debt service payments of the bonds in 2010; (3) a decrease of \$9,679,000 in investment income due to lesser funds being available for investment as funds are used to pay for capital expenditures; (4) a net decrease of \$3,520,000 in the interest and other expenses related to the lease/leaseback obligation due to the early termination in September 2009 of the Key Equipment Finance portion of the obligation; (5) offset by a settlement income of \$5,175,000 for the early termination of the contract with the systems integration consultant of the District's Business Advancement Plan; and (6) an increase of \$25,363,000 in federal financial assistance, which consists of \$22,356,000 from the American Reinvestment and Recovery Act stimulus funds used to fund a portion of the District's preventive maintenance expenses and \$3,007,000 grant used to fund the ADA paratransit expenses.

Management's Discussion and Analysis (Unaudited)

For the years ended June 30, 2010 and 2009

In fiscal year 2009, nonoperating revenues decreased by 16%, or \$45,414,000. The decrease is mainly due to (1) a decrease of \$18,347,000 in sales tax revenues due to the general economic slowdown; (2) the District received \$801,000 operating state transit assistance fund in fiscal year 2009, which is a decrease of \$22,311,000 from fiscal year 2008; (3) decrease in investment income amounting to \$14,307,000 due to lesser amounts of monies invested; and (4) offset by an increase in property tax revenues of \$1,401,000 earmarked for operations and \$9,353,000 for the debt service of the general obligation bonds.

Capital Contributions

The revenues from capital contributions relate to grants and other financial assistance received by the District from the federal, state and local agencies to fund capital projects. The District receives mostly reimbursement-type grants on which the District has to first incur eligible costs under the provider's program before qualifying for the grant resources. Revenues from capital contributions are recognized at the time when the eligible project costs are incurred. In fiscal year 2010, revenues from capital contributions increased by \$62,002,000. The increase can be mainly attributed to the increase in revenues earned from (1) the FHWA grants for \$46,507,000 used to fund the District's seismic retrofit project; (2) MTC's Regional Measure 2 and ACTIA grants for the Warm Springs Extensions Project for \$67,440,000; and (3) a decrease of \$49,648,000 for revenues received from donated assets in fiscal year 2009, none, in fiscal year 2010.

The capital contributions in fiscal year 2009 include donated assets received by the District from the Surplus Property Authority of Alameda County consisting of a fully completed parking garage and approximately 10.533 acres of land located in BART's East Dublin/Pleasanton Station. The parking garage was booked at a value of \$39,413,000, which is equal to its construction cost as reported by the developer. The donated land was booked at a value of \$10,235,000 (Note 5).

The major additions in fiscal years 2010 and 2009 to capital projects are detailed on pages 11 and 12.

Statements of Net Assets

A comparison of the District's *Statements of Net Assets* as of June 30, 2010, 2009 and 2008 is as follows (dollar amounts in thousands):

| | 2010 | 2009 | 2008 |
|-------------------------------------------------|-------------|-------------|-------------|
| Current Assets | \$ 669,894 | \$ 661,320 | \$ 713,765 |
| Noncurrent assets – capital assets, net | 5,505,992 | 5,283,987 | 5,080,746 |
| Noncurrent assets – other | 431,738 | 554,761 | 589,910 |
| Total Assets | 6,607,624 | 6,500,068 | 6,384,421 |
| Current liabilities | 306,162 | 325,406 | 302,315 |
| Noncurrent liabilities | 1,486,997 | 1,565,839 | 1,584,766 |
| Total liabilities | 1,793,159 | 1,891,245 | 1,887,081 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 4,561,307 | 4,324,423 | 4,193,943 |
| Restricted net assets | 98,380 | 139,939 | 80,513 |
| Unrestricted net assets | 154,778 | 144,461 | 222,884 |
| Total net assets | \$4,814,465 | \$4,608,823 | \$4,497,340 |

Current Assets

In fiscal year 2010, current assets showed an increase of \$8,574,000, which is mainly due to (1) an increase in capital grants receivable from funding agencies totaling \$81,767,000; which was offset by (2) a decrease of \$58,857,000 in cash, cash equivalents and investments used to pay operating, debt service and capital expenses; (3) a decrease of \$3,071,000 in the use of materials and supplies for system repairs and maintenance; and (4) decreases in the following receivables: receipt of insurance receivable from the Hayward fire of \$5,425,000, the full collection of the City of Dublin loan with a principal amount of \$2,486,000, advances to contractors for \$2,149,000, capital lease receivable of \$1,577,000 and ticket sales receivables from off-site vendors for \$1,069,000.

In fiscal year 2009, current assets decreased by \$52,445,000, which is mainly due to (1) a decrease of \$78,837,000 in cash, cash equivalents and investments; offset by (2) increases in the following receivables: capital grants for \$15,591,000, insurance recovery on the Hayward fire of \$5,425,000, property tax revenue amounting to \$1,653,000, and unreimbursed operating and capital expenses of Capital Corridor Joint Powers Authority for \$1,472,000.

Noncurrent Assets – Other

Noncurrent assets – other in fiscal year 2010 showed a decrease of \$123,023,000, which is principally due to (1) a decrease of \$61,410,000 in restricted investments which were used for debt service payments; (2) a decrease of \$54,393,000 related to the full payment of the lease/leaseback receivable due to the early termination of the portion of the lease/leaseback obligation associated with Key Equipment Finance, Inc.; and (3) decreases in the following receivables and other assets: \$2,295,000 on interest receivable, \$2,554,000 on property tax receivable designated for the debt service payments of the General Obligation Bonds, \$1,577,000 on capital lease receivable and \$1,479,000 for the net amortization of bond issue costs.

In fiscal year 2009, noncurrent assets – other has a decrease of \$35,149,000, which is all attributed to the decrease in noncurrent restricted investments, which is mainly due to the use of bond proceeds to pay for capital expenditures.

Current Liabilities

In fiscal year 2010, current liabilities showed a decrease of \$19,244,000, which is the net result of the following changes: (1) an increase of \$4,588,000 in payables to vendors and contractors due to the timing of receiving and paying their invoices; (2) a decrease of \$3,459,000 in accruals for employee salaries and benefits mainly because of the reclassification to noncurrent liabilities of the portion of the Other Postemployment Benefit actuarially determined annual required contribution that will not be funded within the next fiscal year; (3) an increase of \$10,909,000 in advance receipt of capital funds from funding agencies mainly from the State of California Proposition 1B grants; and (4) a net decrease of \$30,865,000 in the scheduled principal payments of long-term debt due in one year, mainly derived from the 2007 General Obligation Bonds and lease/leaseback obligation.

The current liabilities as of June 30, 2009 showed an increase of \$23,091,000, which is mostly due to (1) an increase in payables to vendors and contractors for operating and capital expenditures amounting to \$6,107,000; (2) an increase of \$9,199,000 in accruals for employee salaries and benefits; (3) \$15,871,000 increase in the current portion of long-term debt, which is mainly from the lease/leaseback obligation; and (4) a decrease of \$8,540,000 in advances received from grantors.

Noncurrent Liabilities

In fiscal year 2010, noncurrent liabilities decreased by \$78,842,000, which is mainly attributed to (1) the early termination and full payment of the portion of the lease/leaseback obligation related to Key Equipment Finance, Inc. amounting to \$54,393,000; (2) increase of \$30,865,000 in the current portion of long-term debt; (3) decrease of \$4,246,000 due to the regular annual amortizations of deferred revenues; (4) decrease of \$2,617,000 in the self-insurance reserves for general liability and workers' compensation; (5) decrease of \$2,196,000 in the accrued reserves for employee compensated absences; (6) decrease of \$1,577,000 in the capital lease payable as amounts were reclassified to current liabilities; and (7) an increase of \$17,911,000 in unfunded OPEB contribution.

The noncurrent liabilities in fiscal year 2009 showed a decrease of \$18,927,000, which is mainly attributed to (1) principal payments of long-term obligations amounting to \$51,980,000; (2) increase of \$15,870,000 in the current portion of long-term debt; (3) an increase in deferred revenue in the form of a parking structure located in BART's Pleasant Hill Station with a value of \$51,236,000 received from the Pleasant Hill BART Station Leasing Authority and which is considered as a prepayment of its ground lease up to year 2105 on certain land owned by BART (Note 16); (4) decrease of \$7,104,000 for the amortization for the year of other deferred revenues; and (5) increase of \$3,206,000 in the long-term portion of compensated absences.

Capital Assets

Details of the capital assets, net of accumulated depreciation, as of June 30, 2010, 2009 and 2008 are as follows (dollar amounts in thousands):

| | 2010 | 2009 | 2008 |
|----------------------------------------------|--------------------|--------------------|--------------------|
| Land | \$ 545,162 | \$ 540,004 | \$ 530,623 |
| Stations, track, structures and improvements | 2,979,381 | 2,997,464 | 2,926,965 |
| Buildings | 8,776 | 5,609 | 5,559 |
| Revenue transit vehicles | 359,829 | 401,102 | 447,243 |
| Other | 368,722 | 371,014 | 369,075 |
| Construction in progress | 1,244,122 | 968,794 | 801,281 |
| Total capital assets | <u>\$5,505,992</u> | <u>\$5,283,987</u> | <u>\$5,080,746</u> |

The District has entered into contracts for the construction of various facilities and equipment totaling approximately \$1,036,766,000 at June 30, 2010 and \$884,558,000 at June 30, 2009.

Management's Discussion and Analysis (Unaudited)

For the years ended June 30, 2010 and 2009

The District's capital assets, before accumulated depreciation, had a net increase of \$355,649,000 in 2010 and of \$338,696,000 in 2009. The major additions, including construction in progress, during the years included capital expenditures for the acquisition and/or major improvements on the following assets:

- core system and extensions amounting to \$312,975,000 in 2010 and \$193,732,000 in 2009;
- train control equipment totaling \$17,731,000 in 2010 and \$15,072,000 in 2009;
- revenue transit vehicles in the amount of \$10,916,000 in 2010 and \$13,773,000 in 2009;
- automatic fare collection and other equipment amounting to \$13,532,000 in 2010 and \$20,977,000 in 2009; and
- Business Advancement Plan (BAP), which is a project to replace the information technology systems supporting the District's administrative business totaling \$7,382,000 in 2010 and \$3,090,000 in 2009.

The 2009 additions also included (1) donated assets from the Surplus Property Authority of Alameda County in the form of a newly constructed parking garage in BART's East Dublin/Pleasanton Station with a cost of \$39,413,000 and land valued at \$10,235,000 (Note 5); and (2) the District took ownership from the Pleasant Hill BART Station Leasing Authority of a new parking garage located in BART's Pleasant Hill Station with a cost of \$51,236,000 received as a ground lease payment for certain real property owned by BART (Notes 5 and 16).

Long-Term Debt

The outstanding balance of total long-term debt (including current portion but excluding unamortized balance of bond premium/discounts) showed a decrease of \$130,191,000 in fiscal year 2010 and a decrease of \$50,728,000 in fiscal year 2009. Below is a summary of total long-term debt as of June 30, 2010, 2009 and 2008 (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------------------------|--------------------|--------------------|--------------------|
| Bonds payable from and collateralized by | | | |
| a pledge of sales tax revenues | \$ 672,750 | \$ 708,345 | \$ 728,725 |
| Construction loans payable from the | | | |
| net operating surplus of the SFO Extension | 88,500 | 88,500 | 88,500 |
| Construction loan for temporary cash flow | | | |
| requirements of the SFO Extension | 29,000 | 37,000 | 42,000 |
| Lease/leaseback obligation, including accumulated | | | |
| accretion, for rail traffic control equipment | 61,355 | 125,876 | 124,624 |
| Bonds payable from the premium fare | | | |
| imposed on the passengers who board | | | |
| on or depart from the San Francisco | | | |
| International Airport Station | 54,240 | 54,955 | 55,595 |
| General obligation bonds | 420,000 | 441,360 | 467,320 |
| Total long-term debt | <u>\$1,325,845</u> | <u>\$1,456,036</u> | <u>\$1,506,764</u> |

Management's Discussion and Analysis (Unaudited)

For the years ended June 30, 2010 and 2009

The decrease of \$35,595,000 in the Sales Tax Revenue Bonds is due to the scheduled debt service payments of \$21,365,000 and \$14,230,000 net decrease in principal due to the defeasance as described below.

In fiscal year 2010, the District issued Sales Tax Revenue Refunding Bonds (2010 Refunding Bonds) with a principal amount of \$129,595,000 collateralized by the District's sales tax revenues. The proceeds from the 2010 Refunding Bonds were used to refund a portion of the 1998 Bonds with a total principal amount of \$143,825,000.

There were no additions to long-term debt in fiscal year 2009.

Statements of Cash Flows/Cash, Cash Equivalents and Investments

A comparative presentation of the major sources and uses of cash for fiscal years 2010, 2009 and 2008 is as follows (dollar amounts in thousands):

| | 2010 | 2009 | 2008 |
|----------------------------------------------------------------------------|-------------------|-------------------|--------------------|
| Net cash used in operating activities | \$ (122,175) | \$ (178,659) | \$ (145,150) |
| Net cash provided by noncapital financing activities | 201,096 | 190,827 | 230,899 |
| Net cash provided by (used in) capital and related financing activities | (235,463) | (149,270) | (329,007) |
| Net cash provided by (used in) investing activities | 206,117 | (217,112) | (410,748) |
| Net change in cash and cash equivalents | 49,575 | (354,214) | 4,008 |
| Cash and cash equivalents, beginning of year | 203,430 | 557,644 | 553,636 |
| Cash and cash equivalents, end of year | 253,005 | 203,430 | 557,644 |
| Investments, end of year | 560,545 | 730,388 | 492,595 |
| Cash, cash equivalents and investments, end of year | <u>\$ 813,550</u> | <u>\$ 933,818</u> | <u>\$1,050,239</u> |

Cash, Cash Equivalents and Investments

In fiscal year 2010, cash, cash equivalents and investments showed a decrease of \$120,268,000 from \$933,818,000 to \$813,550,000. The decrease is mainly due to the expenditures amounting to \$349,911,000 for the acquisition and/or construction of property and system improvements during the fiscal year. Of the total capital expenditures of \$349,911,000, approximately \$104,326,000 was funded from District-owned funds with the balance coming from grants received from funding agencies. The major projects in fiscal year 2010 include the three extension projects in the Counties of Contra Costa and Alameda, the seismic retrofit project and various improvements on the core system.

The total cash, cash equivalents and investments held by the District Treasury and trustee banks as of June 30, 2009 decreased by \$116,421,000 to \$933,818,000 from \$1,050,239,000 as of June 30, 2008. The decrease can be primarily attributed to expenditures of about \$46,000,000 related to seismic projects funded from the proceeds of the General Obligation Bonds and the use of approximately \$25,000,000 of capital allocation funds to pay the expenses of various capital projects and the use of \$22,493,000 from cash operating reserves to fund the operating shortfall in fiscal year 2009.

Economic Factors and Next Year's Budgets

On July 22, 2010, the District's Board of Directors approved a balanced operating budget of \$582,100,000 and a capital budget of \$777,400,000 for fiscal year 2011.

The operating budget was developed with the economy continuing to be of major concern with respect to the two main District revenue sources—passenger fare and sales tax. Both revenue sources have declined significantly over the past two years and are still declining, although the rate of decline has slowed. The forecast for fiscal year 2011 is for the rate of decline to continue to slow, reflecting slow but gradual improvement in the economy, and both sales tax and passenger fare revenues are expected to be flat for the fiscal year. Over the past two years, the District has countered declining revenues with a combination of budget reductions, fare increases and long-term labor contract adjustments that produced savings in benefit costs and efficiencies in work rules. In fiscal year 2010, 210 operating positions were cut. In fiscal year 2011, an additional of 37.5 operating positions will be either eliminated or converted to capital, which accounts for the major component of the expense reduction of \$5,300,000 in the 2011 operating budget. The 2011 operating budget also included a net revenue of \$21,200,000 in a State Transit Assistance operating grant which was unexpectedly restored and will be allocated to the District by the State of California in 2011.

The capital budget is primarily funded through federal, state and local capital grants. However, District-owned funds are also needed for a portion of the required local match and for expenditures which do not qualify for capital grants. The largest program areas for capital expenditures in fiscal year 2011 will be earthquake safety and system expansion, primarily in the areas of station modernization, train control, traction power, rail replacement and trackway renovation, and other critical projects. Work will also continue on security upgrades; system accessibility improvements; the extension projects to East Contra Costa, Oakland Airport and Warm Springs; the West Dublin/Pleasanton Station project; and a right-of-way acquisition plan for the Livermore/I-580 corridor.

The District's competitive advantages such as the quality of workforce, competent technology and fiscal conservatism are likely to secure the District's capability to weather the current recession that the nation is enduring.

Contacting the District's Financial Management

The District's financial report is designed to provide the District's Board of Directors, management, investors, creditors, legislative and oversight agencies, citizens, and customers with an overview of the District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Scott Schroeder, Controller-Treasurer, at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Enterprise Fund

Statements of Net Assets

June 30, 2010 and 2009

(dollar amounts in thousands)

| | 2010 | 2009 |
|-----------------------------------------------|-----------|-----------|
| Assets | | |
| Current assets | | |
| Unrestricted assets | | |
| Cash and cash equivalents | \$ 88,847 | \$ 67,841 |
| Investments | 136,518 | 208,265 |
| Capital grants receivable | 166,517 | 84,750 |
| Receivables and other assets | 19,713 | 29,399 |
| Current portion of capital lease receivable | 1,577 | 3,155 |
| Materials and supplies | 28,531 | 31,602 |
| Total unrestricted current assets | 441,703 | 425,012 |
| Restricted assets | | |
| Cash and cash equivalents | 164,158 | 135,589 |
| Investments | 64,033 | 100,719 |
| Total restricted current assets | 228,191 | 236,308 |
| Total current assets | 669,894 | 661,320 |
| Noncurrent assets | | |
| Capital assets | | |
| Nondepreciable | 1,789,283 | 1,508,798 |
| Depreciable, net of accumulated depreciation | 3,716,709 | 3,775,189 |
| Unrestricted assets | | |
| Long-term portion of capital lease receivable | - | 1,577 |
| Receivables and other assets | 11,195 | 12,764 |
| Restricted assets | | |
| Investments | 359,994 | 421,404 |
| Receivables and other assets | 30,791 | 52,990 |
| Deposits for sublease obligation | 29,758 | 66,026 |
| Total noncurrent assets | 5,937,730 | 5,838,748 |
| Total assets | 6,607,624 | 6,500,068 |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

Enterprise Fund

Statements of Net Assets (continued)

June 30, 2010 and 2009

(dollar amounts in thousands)

| | 2010 | 2009 |
|-------------------------------------------------|-------------|-------------|
| Liabilities and Net Assets | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and other liabilities | \$ 201,203 | \$ 200,186 |
| Current portion of long-term debt | 44,284 | 75,149 |
| Self-insurance liabilities | 11,333 | 10,441 |
| Deferred revenue | 47,765 | 36,475 |
| Current portion of capital lease liability | 1,577 | 3,155 |
| Total current liabilities | 306,162 | 325,406 |
| Noncurrent liabilities | | |
| Accounts payable and other liabilities | 60,281 | 42,686 |
| Long-term debt, net of current portion | 1,293,932 | 1,382,048 |
| Self-insurance liabilities | 16,312 | 18,929 |
| Deferred revenue | 116,472 | 120,599 |
| Capital lease liability, net of current portion | - | 1,577 |
| Total noncurrent liabilities | 1,486,997 | 1,565,839 |
| Total liabilities | 1,793,159 | 1,891,245 |
| Net assets | | |
| Invested in capital assets, net of related debt | 4,561,307 | 4,324,423 |
| Restricted net assets | | |
| For debt service and other liabilities | 98,380 | 139,939 |
| Unrestricted net assets | 154,778 | 144,461 |
| Total net assets | \$4,814,465 | \$4,608,823 |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Enterprise Fund****Statements of Revenues, Expenses and Changes in Net Assets****For the years ended June 30, 2010 and 2009**

(dollar amounts in thousands)

| | <u>2010</u> | <u>2009</u> |
|----------------------------------------------------------------|---------------------------|---------------------------|
| Operating revenues | | |
| Fares | \$ 332,018 | \$ 318,094 |
| Other | 36,568 | 30,144 |
| Total operating revenues | <u>368,586</u> | <u>348,238</u> |
| Operating expenses | | |
| Transportation | 167,023 | 167,241 |
| Maintenance | 195,746 | 210,410 |
| Police services | 47,233 | 49,607 |
| Construction and engineering | 19,939 | 23,876 |
| General and administrative | 130,949 | 121,399 |
| Depreciation | 135,585 | 136,764 |
| Total operating expenses | <u>696,475</u> | <u>709,297</u> |
| Less – capitalized costs | (48,636) | (42,918) |
| Net operating expenses | <u>647,839</u> | <u>666,379</u> |
| Operating loss | <u>(279,253)</u> | <u>(318,141)</u> |
| Nonoperating revenues (expenses) | | |
| Transactions and use tax – sales tax | 166,520 | 184,286 |
| Property tax | 61,369 | 76,096 |
| Operating financial assistance | 59,428 | 34,068 |
| Contribution for BART car replacement funding exchange program | (22,683) | (22,682) |
| Investment income | 25,196 | 34,875 |
| Interest expense | (57,849) | (68,159) |
| Other income (expense), net | 399 | 627 |
| Total nonoperating revenues, net | <u>232,380</u> | <u>239,111</u> |
| Change in net assets before capital contributions | (46,873) | (79,030) |
| Capital contributions | <u>252,515</u> | <u>190,513</u> |
| Change in net assets | <u>205,642</u> | <u>111,483</u> |
| Net assets, beginning of year | <u>4,608,823</u> | <u>4,497,340</u> |
| Net assets, end of year | <u><u>\$4,814,465</u></u> | <u><u>\$4,608,823</u></u> |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Enterprise Fund****Statements of Cash Flows****For the years ended June 30, 2010 and 2009**

(dollar amounts in thousands)

| | 2010 | 2009 |
|-----------------------------------------------------------------|------------------|------------------|
| Cash flows from operating activities | | |
| Receipts from customers | \$ 335,632 | \$ 315,137 |
| Payments to suppliers | (142,692) | (146,366) |
| Payments to employees | (350,798) | (377,353) |
| Other operating cash receipts | 35,683 | 29,923 |
| Net cash used in operating activities | <u>(122,175)</u> | <u>(178,659)</u> |
| Cash flows from noncapital financing activities | | |
| Transactions and use tax (sales tax) received | 110,675 | 126,365 |
| Property tax received | 31,767 | 28,702 |
| Financial assistance received | 58,654 | 35,760 |
| Net cash provided by noncapital financing activities | <u>201,096</u> | <u>190,827</u> |
| Cash flows from capital and related financing activities | | |
| Transactions and use tax (sales tax) received | 55,845 | 57,921 |
| Property tax received | 32,618 | 44,025 |
| Capital grants received | 176,021 | 114,087 |
| Expenditures for facilities, property and equipment | (349,911) | (230,081) |
| Principal paid on long-term debt | (68,535) | (51,980) |
| Payments of long-term debt issuance and service costs | (375) | (192) |
| Interest paid on long-term debt | (62,007) | (59,076) |
| Principal payments received from notes receivable | 2,577 | 119 |
| Settlement received from early termination of contract | 5,175 | - |
| Deposit – Lodi Power Plant | - | (1,411) |
| Contribution for BART car replacement funding exchange program | (22,683) | (22,682) |
| Guarantee advertising deposit received | 1,300 | - |
| Loss from early termination of lease/leaseback obligation | (5,488) | - |
| Net cash used in capital and related financing activities | <u>(235,463)</u> | <u>(149,270)</u> |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Enterprise Fund****Statements of Cash Flows (continued)****For the years ended June 30, 2010 and 2009**

(dollar amounts in thousands)

| | <u>2010</u> | <u>2009</u> |
|----------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Cash flows from investing activities | | |
| Proceeds from sale and maturity of investments | 662,443 | 325,009 |
| Purchase of investments | (492,114) | (562,802) |
| Investment income | 35,788 | 20,681 |
| Net cash provided by (used in) investing activities | <u>206,117</u> | <u>(217,112)</u> |
| Net change in cash and cash equivalents | 49,575 | (354,214) |
| Cash and cash equivalents, beginning of year | 203,430 | 557,644 |
| Cash and cash equivalents, end of year | <u><u>\$ 253,005</u></u> | <u><u>\$ 203,430</u></u> |
| Reconciliation of cash and cash equivalents to the Statements of Net Assets | | |
| Current, unrestricted assets – cash and cash equivalents | \$ 88,847 | \$ 67,841 |
| Current, restricted assets – cash and cash equivalents | 164,158 | 135,589 |
| Total cash and cash equivalents | <u><u>\$ 253,005</u></u> | <u><u>\$ 203,430</u></u> |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Enterprise Fund****Statements of Cash Flows (continued)****For the years ended June 30, 2010 and 2009**

(dollar amounts in thousands)

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------------------------------------------------------|---------------------|---------------------|
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | \$ (279,253) | \$ (318,141) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 135,585 | 136,764 |
| Amortization of deferred settlement costs | 321 | 325 |
| Net effect of changes in | | |
| Receivables and other assets | 6,049 | (10,693) |
| Materials and supplies | 3,071 | (1,605) |
| Accounts payable and other liabilities | 14,907 | 11,557 |
| Self-insurance liabilities | (1,725) | 1,124 |
| Deferred revenue | (1,130) | 2,010 |
| Net cash used in operating activities | <u>\$ (122,175)</u> | <u>\$ (178,659)</u> |
| Noncash transactions | | |
| Capital assets acquired with a liability at year-end | \$ 63,269 | \$ 58,881 |
| Net proceeds from the issuance of the 2010 Sales Tax | | |
| Revenue Refunding Bonds placed in escrow to defease bonds | 144,974 | - |
| Deferred ground lease | - | 51,236 |
| Donated capital assets | - | 49,648 |
| Lease/leaseback obligation additions | 5,096 | 8,550 |
| Lease/leaseback obligation amortization | 44,547 | 7,298 |
| Reduction in capital lease receivable and liability | 3,155 | 3,155 |
| Increase (decrease) in fair value of investments | 3,948 | 34 |
| Amortization of long-term debt premium, discount and issue costs | (521) | (443) |
| Amortization of deferred interest on early debt retirement | 1,362 | 1,330 |
| Amortization of deferred gain on lease/leaseback transaction | 1,482 | 1,482 |
| Amortization of deferred ground lease | 589 | 35 |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Retiree Health Benefit Trust****Statements of Trust Net Assets****June 30, 2010 and 2009**

(dollar amounts in thousands)

| | 2010 | 2009 |
|-------------------------------------------------------------|------------------|------------------|
| Assets | | |
| Cash and cash equivalents | \$ 125 | \$ 78 |
| Receivables and other assets | 393 | 1,272 |
| Pending trades receivable | 79 | 1,700 |
| Investments | | |
| Domestic common stocks | 41,722 | 31,958 |
| U.S. Treasury obligations | 18,951 | 6,635 |
| Money market mutual funds | 9,900 | 4,736 |
| Mutual funds – equity | 11,691 | 8,227 |
| Corporate obligations | 7,731 | 13,147 |
| Foreign stocks | 957 | 863 |
| Foreign obligations | 252 | 1,177 |
| Total investments | 91,204 | 66,743 |
| Total assets | 91,801 | 69,793 |
| Liabilities | | |
| Accounts payable | 81 | 78 |
| Pending trades payable | 3,264 | 1,628 |
| Total liabilities | 3,345 | 1,706 |
| Net assets held in trust for retiree health benefits | \$ 88,456 | \$ 68,087 |

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT**Retiree Health Benefit Trust****Statements of Changes in Trust Net Assets
For the years ended June 30, 2010 and 2009**

(dollar amounts in thousands)

| | 2010 | 2009 |
|--------------------------------------------------------------|-------------|-------------|
| Additions | | |
| Employer contributions | | |
| Cash contributions | \$ 11,532 | \$ 24,940 |
| Pay-as-you-go contributions | 11,534 | 12,561 |
| Total employer contributions | 23,066 | 37,501 |
| Investment income (expense) | | |
| Interest income | 1,833 | 1,858 |
| Realized gain (loss) | 3,894 | (4,884) |
| Net appreciation (decrease) in fair value of investments | 3,419 | (1,994) |
| Investment expense | (262) | (249) |
| Net investment expense | 8,884 | (5,269) |
| Total additions | 31,950 | 32,232 |
| Deductions | | |
| Pay-as-you-go benefit payments | 11,534 | 12,561 |
| Legal fees | 8 | 9 |
| Audit fees | 16 | 18 |
| Insurance expense | 23 | 21 |
| Total deductions | 11,581 | 12,609 |
| Increase in trust net assets | 20,369 | 19,623 |
| Net assets held in trust for retiree health benefits: | | |
| Beginning of year | 68,087 | 48,464 |
| End of year | \$ 88,456 | \$ 68,087 |

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity

The San Francisco Bay Area Rapid Transit District (the “District”) is a public agency created by the legislature of the State of California in 1957 and regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of funds received by the District is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

The District has defined its financial reporting entity in accordance with the Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, which states that the financial reporting entity should consist of (a) the primary government; (b) the organizations for which the primary government is financially accountable; and (c) the other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on this definition, and the fact that the Transit Financing Authority (the “Authority”) provides services almost entirely to the District, the primary government, the Authority’s financial information is presented as a blended component unit of the District’s financial statements (Note 15).

Basis of Accounting and Presentation

The basic financial statements provide information about the District’s Enterprise Fund and the Retiree Health Benefit Trust Fund. Separate statements for each fund category—proprietary and fiduciary—are presented. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues from property taxes are recognized in the fiscal year for which the taxes are levied; revenue from sales taxes is recognized in the fiscal year when the underlying exchange takes place; revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied; and revenue from investments is recognized when earned.

The Enterprise Fund, a proprietary fund, distinguishes operating revenues and expenses from nonoperating items. The District’s operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations include all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, services, utilities, leases and rentals, and depreciation on capital assets. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions and Accounting Research Bulletins (“ARBs”) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to apply FASB Statements and Interpretations issued after November 30, 1989, due to the nature of the District’s operations.

The Retiree Health Benefit Trust Fund, a fiduciary fund, is used to account for assets held by the District as a trustee to pay retiree health care premiums. The assets of the Trust cannot be used to support the District's programs.

Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

The District records investment transactions on the trade date. Investments in nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits and guaranteed investment contracts) are reported at cost and all other investments are at fair value. Fair value is defined as the amount that the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and for the District's investments is generally measured by quoted market prices. As a matter of policy, the District usually holds investments until their maturity.

Restricted Assets

Certain assets are classified as restricted assets on the statement of net assets because their use is subject to externally imposed stipulations, either by certain bond covenants, laws or regulations, or provisions of debt agreements.

Capital Grants/Contributions

The District receives grants from the Federal Transit Administration ("FTA") and other agencies of the U.S. Department of Transportation, the State of California, and local transportation funds for the acquisition of transit-related equipment and improvements. Capital grants receivables represent amounts expected from governmental agencies to reimburse the District for costs incurred for capital projects (Notes 9 and 10).

Materials and Supplies

Materials and supplies consist primarily of replacement parts for the system and rail vehicles, which are stated at cost using the average-cost method. Materials and supplies are expensed as consumed.

Bond Issuance Costs, Discounts, Premiums and Deferred Amounts on Refundings

The bond issuance costs, discounts, premiums and deferred amounts on refundings are deferred and amortized over the term of the bonds as a component of interest expense. The unamortized portion of these items, except the deferred bond issuance costs, which are classified as part of receivables and other assets, are presented as a reduction of the face amount of bonds payable.

Capital Assets

Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 80 years. The District's policy is to capitalize acquisitions of capital assets with a cost of \$5,000 or more and a useful life of more than one year, and all costs related to capital projects, regardless of amounts. Upon disposition, costs and accumulated depreciation/amortization are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes, as intangible capital assets, easements and right-of-ways and internally generated intangibles such as computer software. Easements and right-of-ways are not amortized, as they have indefinite useful lives, while computer software is amortized over a period of 20 years.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs that do not extend the useful life of the applicable assets are charged to expense as incurred. The District capitalizes certain interest income and expense related to tax-free borrowings until the assets are ready for their intended use. The amount capitalized is the difference between the interest revenue and interest expense associated with the applicable tax-free borrowings. Amounts capitalized were a net interest expense of \$5,555,000 in fiscal year 2010 and \$1,175,000 in fiscal year 2009.

Deferred Revenue

Deferred revenue consists of (1) the cash gain received by the District from the lease/leaseback of certain rail traffic control equipment in 2002 (Note 7) and from the sale/leaseback of 25 C-2 rail cars in 1995 (Note 4); (2) prepayments of revenues related to license fees paid by telecommunication companies for the use of the District's right-of-way for wireless accessibility to their customers; (3) estimated passenger tickets sold but unused; (4) advances received from grant agreements; and (5) prepayments of ground lease revenues (Note 16).

Compensated Absences

Compensated absences are reported and accrued as a liability in the period incurred. Compensated absences has a total balance of \$58,383,000 as of June 30, 2010 and \$59,393,000 as of June 30, 2009 and is shown in the statements of net assets in accounts payable and other liabilities as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|------------------------|------------------|------------------|
| Current liabilities | \$ 20,667 | \$ 19,481 |
| Noncurrent liabilities | 37,716 | 39,912 |
| Total | <u>\$ 58,383</u> | <u>\$ 59,393</u> |

Pollution Remediation

The recognition of pollution remediation obligations (including contamination) addresses the current or potential detrimental effects of existing pollution by estimating costs associated with participating in pollution remediation activities, such as site assessments and cleanups. There are no material remediation obligations that the District is currently or potentially involved in.

Net Assets

Net assets invested in capital assets, net of related debt, include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation and include amounts restricted for debt service and other liabilities. All other net assets are unrestricted. Generally, the District's policy is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Transactions and Use Tax (Sales Tax) Revenues

The State of California legislation authorizes the District to impose a 0.5% transaction and use tax within District boundaries, which is collected and administered by the State Board of Equalization. Of the amounts available for distribution, 75% is paid directly to the District for the purpose of paying operating expenses, except for the portion that is paid directly to trustees to cover principal and interest payments of maturing sales tax revenue bonds and equity reserves. The remaining 25% is allocated by the Metropolitan Transportation Commission ("MTC") to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustees) as revenue.

Property Taxes, Collection and Maximum Rates

The State of California Constitution Article XIII.A provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII.A and may be adjusted by no more than 2% per year, unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives an allocation of property tax revenues for transit operations. Additionally, beginning in fiscal year 2006, the District received property tax allocations for the debt service payments on the 2005 and 2007 General Obligation Bonds. As required by the law of the State of California, the District utilizes the services of each of the three BART Counties of Alameda, Contra Costa and San Francisco for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as county, school district and other special district taxes. Property taxes are recorded as revenue in the fiscal year of levy. Assessed values are determined annually by the Assessor's Offices of the City and County of San Francisco, County of Alameda and County of Contra Costa on January 1, and become a lien on the real properties at January 1. The levy date for secured and unsecured properties is July 1 of each year. Secured taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent after August 31.

Operating Financial Assistance

Financial assistance grants for operations from federal, state and local agencies are reported as non-operating revenue in the period in which all eligibility requirements have been satisfied (Notes 9 and 10).

Collective Bargaining

Approximately 87% of the District's employees are subject to collective bargaining. The current bargaining units consist of the following:

- American Federation of State, County and Municipal Employees (AFSCME), Local 3993
- Amalgamated Transit Union (ATU), Local 1555
- Service Employees International Union (SEIU), Local 1021
- BART Police Officers Association (BPOA)
- BART Police Managers Association (BPMA)

Capitalized Costs

The District initially charges employee salaries, wages and benefits to operating expenses by functional expense category. Labor costs included in those amounts that are associated with capital projects are subsequently adjusted to be included in the cost of the related capital asset. This adjustment is reflected in the statement of revenues, expenses and changes in net assets as a reduction of operating expenses. The amounts of \$48,636,000 and \$42,918,000 were capitalized during the years ended June 30, 2010 and 2009, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

Recent Accounting Pronouncements That Have Been Adopted

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope of provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The adoption of GASB 51 did not have a material impact on the District's financial statements.

Recent Accounting Pronouncements That Have Not Been Adopted

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged.

June 30, 2010 and 2009

2. CASH, CASH EQUIVALENTS AND INVESTMENTS**A. Cash, Cash Equivalents and Investments of the Enterprise Fund**

Cash, cash equivalents and investments are reported in the Enterprise Fund as follows (dollar amounts in thousands):

| | 2010 | | | 2009 | | |
|---------------------------|--------------|------------|------------|--------------|------------|------------|
| | Unrestricted | Restricted | Total | Unrestricted | Restricted | Total |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 88,847 | \$ 164,158 | \$ 253,005 | \$ 67,841 | \$ 135,589 | \$ 203,430 |
| Investments | 136,518 | 64,033 | 200,551 | 208,265 | 100,719 | 308,984 |
| Noncurrent assets | | | | | | |
| Investments | - | 359,994 | 359,994 | - | 421,404 | 421,404 |
| Total | \$ 225,365 | \$ 588,185 | \$ 813,550 | \$ 276,106 | \$ 657,712 | \$ 933,818 |

Investment Policy

The California Public Utilities Code, Section 29100, and the California Government Code, Section 53601, provide the basis for the District's investment policy. To meet the objectives of the investment policy—(1) preservation of capital, (2) liquidity, and (3) yield—the investment policy, approved by the Board of Directors, specifically identifies the types of permitted investments, as well as any maturity limits and other restrictions. The District's investment policy, which is more restrictive than required by law, only allows investments in the following:

- Repurchase agreements,
- Reverse repurchase agreements,
- Collateralized time deposits,
- Money market mutual funds,
- California Local Agency Investment Fund, and
- Securities of the U.S. Government and its agencies.

The District's investments include amounts invested in the State of California Local Agency Investment Fund ("LAIF"). The total amount invested by all public agencies in LAIF is \$23.3 billion and \$25.2 billion at June 30, 2010 and 2009, respectively. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"), whose balance at June 30, 2010 and 2009 was \$69.4 billion and \$50.9 billion, respectively. Of these amounts, 5.42% and 14.71% were invested in structured notes and asset-backed securities and the remaining balance was invested in non-derivative instruments as of June 30, 2010 and 2009, respectively. PMIA is not SEC-registered, but is required to invest according to the California Government Code. The average maturity of PMIA investments was 203 days and 235 days as of June 30, 2010 and 2009, respectively. The Local Investment Advisory Board ("Board") has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled Treasuries' portion in the pool. Withdrawals from LAIF are made on a dollar-to-dollar basis.

June 30, 2010 and 2009

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. One of the District's primary objectives is to provide sufficient liquidity to meet its cash outflow needs; however, the District does not have any policies specifically addressing interest rate risk. A summary of investments by type of investment and by segmented time distribution as of June 30, 2010 and 2009 is as follows (dollar amounts in thousands):

| | 2010 | Investment Maturities (in Years) | | |
|------------------------------|-------------------|-----------------------------------------|--------------|---------------|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 |
| Money market mutual funds | \$ 124,845 | \$ 124,845 | \$ - | \$ - |
| U.S. government agencies | 32,477 | 9,233 | 602 | 22,642 |
| Repurchase agreements | 327,517 | 327,517 | - | - |
| U.S. Treasury bills | 199,942 | 199,942 | - | - |
| Local Agency Investment Fund | 20,000 | 20,000 | - | - |
| Total investments | 704,781 | \$ 681,537 | \$ 602 | \$ 22,642 |
| Deposits with banks | 105,674 | | | |
| Certificates of deposit | 609 | | | |
| Imprest funds | 2,486 | | | |
| Total cash and investments | \$ 813,550 | | | |

| | 2009 | Investment Maturities (in Years) | | |
|------------------------------|-------------------|-----------------------------------------|--------------|---------------|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 |
| Money market mutual funds | \$ 160,526 | \$ 160,526 | \$ - | \$ - |
| U.S. government agencies | 46,010 | - | 10,816 | 35,194 |
| Repurchase agreements | 375,395 | - | 375,395 | - |
| U.S. Treasury bills | 305,282 | 305,282 | - | - |
| Local Agency Investment Fund | 20,000 | 20,000 | - | - |
| Total investments | 907,213 | \$ 485,808 | \$ 386,211 | \$ 35,194 |
| Deposits with banks | 20,280 | | | |
| Certificates of deposit | 3,702 | | | |
| Imprest funds | 2,623 | | | |
| Total cash and investments | \$ 933,818 | | | |

Credit Risk

The District's credit rating risk is governed by Section 53601 of the California Government Code which, among others, limits investments in money market mutual funds to those funds with the highest evaluations granted by the rating agencies, which is Aaam. The District has investments in U.S. Treasury and government agencies, bank repurchase agreements (underlying of U.S. Treasury securities and others), money market mutual funds, and in LAIF. There are no investment limits on the securities of U.S. Treasury or certain U.S. government agencies that are backed by the full faith and credit of the United States government. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's, Fitch Ratings and/or Moody's as of June 30, 2010 and 2009 (dollar amounts in thousands):

| | 2010 | Credit Ratings | | | | |
|------------------------------|-------------------|-----------------------|-----------|----------|------------|------------------|
| | Fair Value | AAA | AA | A | BB | Not Rated |
| Money market mutual funds | \$ 124,845 | \$ 33,259 | \$ 91,586 | \$ - | \$ - | \$ - |
| U.S. government agencies | 32,477 | 8,998 | - | 460 | - | 23,019 |
| Repurchase agreements | 327,517 | 163,700 | - | - | 163,817 | - |
| U.S. Treasury bills | 199,942 | 199,942 | - | - | - | - |
| Local Agency Investment Fund | 20,000 | - | - | - | - | 20,000 |
| Total investments | 704,781 | \$ 405,899 | \$ 91,586 | \$ 460 | \$ 163,817 | \$ 43,019 |
| Deposits with banks | 105,674 | | | | | |
| Certificates of deposit | 609 | | | | | |
| Imprest funds | 2,486 | | | | | |
| Total cash and investments | \$ 813,550 | | | | | |

| | 2009 | Credit Ratings | | | |
|------------------------------|-------------------|-----------------------|----------|------------|------------------|
| | Fair Value | AAA | A | BB | Not Rated |
| Money market mutual funds | \$ 160,526 | \$ 160,526 | \$ - | \$ - | \$ - |
| U.S. government agencies | 46,010 | 9,318 | 683 | - | 36,009 |
| Repurchase agreements | 375,395 | 187,662 | - | 187,733 | - |
| U.S. Treasury bills | 305,282 | 305,282 | - | - | - |
| Local Agency Investment Fund | 20,000 | - | - | - | 20,000 |
| Total investments | 907,213 | \$ 662,788 | \$ 683 | \$ 187,733 | \$ 56,009 |
| Deposits with banks | 20,280 | | | | |
| Certificates of deposit | 3,702 | | | | |
| Imprest funds | 2,623 | | | | |
| Total cash and investments | \$ 933,818 | | | | |

June 30, 2010 and 2009

Concentration of Credit Risk

The District does not have a policy to limit investments in any one issuer to no more than 5% of the total portfolio. However, the California Government Code Section 53601.7 generally recommends that investments in one issuer do not exceed 5% of the entity's total portfolio, except obligations of the United States government, United States government agencies and United States government-sponsored enterprises, and no more than 10% of the entity's total portfolio may be invested in any one mutual fund. The following investments exceeded 5% of the District's total investment portfolio (dollar amounts in thousands):

| | 2010 | | 2009 | |
|------------------------------|------------|----------------------------------------------------|------------|----------------------------------------------------|
| | Amount | Percentage of Total Investment Portfolio (%) | Amount | Percentage of Total Investment Portfolio (%) |
| MBIA Repurchase Agreement | \$ 163,817 | 23% | \$ 187,733 | 21% |
| FSA Cap Repurchase Agreement | 163,700 | 23% | 187,662 | 21% |

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral is considered to be held in the District's name.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the District may not be able to recover the value of its investments. The exposure to the District is limited, as the District's investments are held in the District's name by a third-party safe-keeping custodian that is separate from the counterparty or in the custody of a trust department, as required by bond covenants.

B. Investments of the Retiree Health Benefit Trust ("Trust")

Investment Policy

The investment objective of the Trust is to achieve consistent long-term growth for the Trust and to maximize income consistent with the preservation of capital for the sole and exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Trust. The District's Board of Directors establishes the general investment policy and guidelines for the Trust. Allowable investments under the Trust investment guidelines include:

- Cash equivalents such as U.S. Treasury bills, money market trusts, short-term interest fund ("STIF") trusts, commercial paper rated A1/P1, banker's acceptances, certificates of deposits and repurchase agreements;
- Fixed income securities which include U.S. agency and corporation bonds (including Yankees) and preferred stock and Rule 144A issues, and mortgage or asset-backed securities; and
- Equity securities, including U.S. traded common, preferred stocks and convertible stocks and bonds, including American Depository Receipts.

Interest Rate Risk

The Trust's investment policies mitigate exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

| <u>Asset Class</u> | <u>Minimum</u> | <u>Maximum</u> | <u>Preferred</u> |
|-------------------------|----------------|----------------|------------------|
| Equity securities | 45% | 70% | 60% |
| Fixed income securities | 25% | 45% | 35% |
| Cash equivalents | 3% | 10% | 5% |

Notes to Basic Financial Statements

June 30, 2010 and 2009

A summary of investments by type of investment and by segmented time distribution as of June 30, 2010 and 2009 is as follows (dollar amounts in thousands):

| | 2010 | Investment Maturities (in Years) | | | |
|-------------------------------------------|-------------------|-----------------------------------------|--------------|---------------|---------------------|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
| U.S. Treasury obligations | \$ 18,951 | \$ 1,075 | \$ 11,078 | \$ 4,877 | \$ 1,921 |
| Money market mutual funds | 9,900 | 9,900 | - | - | - |
| Corporate obligations | 7,731 | 37 | 2,433 | 3,123 | 2,138 |
| Foreign obligations | 252 | - | - | 137 | 115 |
| Investments subject to interest rate risk | 36,834 | \$ 11,012 | \$ 13,511 | \$ 8,137 | \$ 4,174 |
| Domestic common stocks | 41,722 | | | | |
| Mutual funds – equity | 11,691 | | | | |
| Foreign stocks | 957 | | | | |
| Total investments | \$ 91,204 | | | | |

| | 2009 | Investment Maturities (in Years) | | | |
|-------------------------------------------|-------------------|-----------------------------------------|--------------|---------------|---------------------|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
| U.S. Treasury obligations | \$ 6,635 | \$ 2,190 | \$ 2,815 | \$ 866 | \$ 764 |
| Money market mutual funds | 4,736 | 4,736 | - | - | - |
| Corporate obligations | 13,147 | - | 1,521 | 5,723 | 5,903 |
| Foreign obligations | 1,177 | - | 7 | 641 | 529 |
| Investments subject to interest rate risk | 25,695 | \$ 6,926 | \$ 4,343 | \$ 7,230 | \$ 7,196 |
| Domestic common stocks | 31,958 | | | | |
| Mutual funds – equity | 8,227 | | | | |
| Foreign stocks | 863 | | | | |
| Total investments | \$ 66,743 | | | | |

June 30, 2010 and 2009

Credit Risk

The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also demands that no single investment shall exceed five percent of the total Trust assets, at market value, except obligations of the U.S. government, short-term money market funds, index funds and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock benchmark. The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's and/or Moody's as of June 30, 2010 and 2009 (dollar amounts in thousands):

| | 2010 | Credit Ratings | | | | |
|------------------------------------|------------|----------------|--------|----------|----------|-------|
| | Fair Value | AAA | AA | A | BBB | CCC |
| U.S. Treasury obligations | \$ 18,951 | \$ 18,951 | \$ - | \$ - | \$ - | \$ - |
| Money market mutual funds | 9,900 | 9,900 | - | - | - | - |
| Corporate obligations | 7,731 | 2,245 | 551 | 3,709 | 1,196 | 30 |
| Foreign obligations | 252 | - | 137 | 115 | - | - |
| Investments subject to credit risk | 36,834 | \$ 31,096 | \$ 688 | \$ 3,824 | \$ 1,196 | \$ 30 |
| Domestic common stocks | 41,722 | | | | | |
| Mutual funds – equity | 11,691 | | | | | |
| Foreign stocks | 957 | | | | | |
| Total investments | \$ 91,204 | | | | | |

| | 2009 | Credit Ratings | | | | | |
|------------------------------------|------------|----------------|--------|----------|----------|--------|-----------|
| | Fair Value | AAA | AA | A | BBB | BB | Not Rated |
| U.S. Treasury obligations | \$ 6,635 | \$ 6,635 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Money market mutual funds | 4,736 | 4,736 | - | - | - | - | - |
| Corporate obligations | 13,147 | 2,353 | 636 | 5,830 | 4,011 | 287 | 30 |
| Foreign obligations | 1,177 | - | 198 | - | 971 | 8 | - |
| Investments subject to credit risk | 25,695 | \$ 13,724 | \$ 834 | \$ 5,830 | \$ 4,982 | \$ 295 | \$ 30 |
| Domestic common stocks | 31,958 | | | | | | |
| Mutual funds – equity | 8,227 | | | | | | |
| Foreign stocks | 863 | | | | | | |
| Total investments | \$ 66,743 | | | | | | |

Concentration of Credit Risk

The Trust's investment policies mitigate exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the Trust may not be able to recover the value of its investments. The exposure to the Trust is limited, as the Trust's investments are in the custody of a third-party custodian that is separate from the counterparty.

3. RECEIVABLES AND OTHER ASSETS

The District reports the following aggregated accounts as receivables and other assets in the statements of net assets as of June 30, 2010 and 2009 (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|------------------------------------------------------------------------------------|------------------|------------------|
| Interest receivable – trust for sublease obligation | \$ 17,174 | \$ 34,645 |
| Interest receivable – other investments | 2,310 | 4,666 |
| Unamortized issuance costs | 11,283 | 12,807 |
| Deferred charges | 674 | 767 |
| Deposit for power supply | 11,340 | 11,219 |
| Off-site ticket vendor receivable | 3,764 | 5,317 |
| Notes receivable | 1,546 | 4,123 |
| Capitol Corridor Joint Powers Authority receivable (Note 16) | 8,071 | 3,856 |
| Property tax receivable | 1,191 | 4,208 |
| Prepaid expenses | 1,596 | 2,031 |
| Imprest deposits for self-insurance liabilities | 490 | 518 |
| Other | 2,525 | 11,095 |
| Allowance for doubtful accounts | (265) | (99) |
| Total receivables and other assets | <u>\$ 61,699</u> | <u>\$ 95,153</u> |
| Current, unrestricted portion | \$ 19,713 | \$ 29,399 |
| Noncurrent, unrestricted portion | 11,195 | 12,764 |
| Noncurrent, restricted portion | 30,791 | 52,990 |
| Total receivables and other assets, as presented in the basic financial statements | <u>\$ 61,699</u> | <u>\$ 95,153</u> |

4. CAPITAL LEASE RECEIVABLE AND LIABILITY (SALE/LEASEBACK – REVENUE TRANSIT VEHICLES)

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for \$50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995, and continues through January 15, 2011.

The District recorded a gain on the sale of approximately \$2,015,000, which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of \$48,368,000 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. At June 30, 2010 and 2009, the balance of the deferred gain was \$833,000 and \$888,000, respectively. The balance of both the receivable and the liability was \$1,577,000 and \$4,732,000 as of June 30, 2010 and 2009, respectively, and is reflected in the statements of net assets as a capital lease receivable and capital lease liability, respectively. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

At June 30, 2010 and 2009, the balances of the capital lease receivable and of the capital lease liability related to the sale/leaseback are summarized as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|------------------------------|-------------|-----------------|
| Amounts at beginning of year | \$ 4,732 | \$ 7,886 |
| Amortization during the year | (3,155) | (3,154) |
| Balance at end of year | 1,577 | 4,732 |
| Less – current portion | (1,577) | (3,155) |
| Net noncurrent portion | <u>\$ -</u> | <u>\$ 1,577</u> |

Accumulated depreciation related to the C-2 rail cars covered by the sale/leaseback agreement totaled \$27,938,000 and \$26,085,000 as of June 30, 2010 and 2009, respectively.

June 30, 2010 and 2009

5. CAPITAL ASSETS

Changes to capital assets during the year ended June 30, 2010 were as follows (dollar amounts in thousands):

| | Lives (Years) | 2009 | Additions and Transfers | Retirements and Transfers | 2010 |
|-------------------------------------------------|--------------------------|--------------------|----------------------------------------|------------------------------------------|--------------------|
| Capital assets, not being depreciated | | | | | |
| Land | N/A | \$ 540,004 | \$ 8,716 | \$ (3,558) | \$ 545,162 |
| Construction in progress | N/A | 968,794 | 356,840 | (81,513) | 1,244,121 |
| Total capital assets, not being depreciated | | 1,508,798 | 365,556 | (85,071) | 1,789,283 |
| Capital assets, being depreciated | | | | | |
| Tangible Asset | | | | | |
| Stations, track, structures and improvements | 80 | 3,769,766 | 32,450 | (705) | 3,801,511 |
| Buildings | 80 | 7,472 | 3,260 | - | 10,732 |
| System-wide operation and control | 20 | 572,558 | 8,160 | (10) | 580,708 |
| Revenue transit vehicles | 30 | 1,042,346 | 5,618 | - | 1,047,964 |
| Revenue transit vehicles under capital lease | 30 | 55,593 | - | - | 55,593 |
| Service and miscellaneous equipment | 3-20 | 202,044 | 13,562 | (2,096) | 213,510 |
| Capitalized construction and start-up costs | 30 | 98,305 | - | - | 98,305 |
| Repairable property items | 30 | 22,966 | 14,988 | (64) | 37,890 |
| Intangible Asset | | | | | |
| Information System | 20 | 14,407 | - | - | 14,407 |
| Total capital assets, being depreciated | | 5,785,457 | 78,038 | (2,875) | 5,860,620 |
| Less accumulated depreciation | | (2,010,268) | (135,585) | 1,942 | (2,143,911) |
| Total capital assets, being depreciated, net | | 3,775,189 | (57,547) | (933) | 3,716,709 |
| Total capital assets, net | | <u>\$5,283,987</u> | <u>\$ 308,009</u> | <u>\$ (86,004)</u> | <u>\$5,505,992</u> |

Notes to Basic Financial Statements

June 30, 2010 and 2009

Changes to capital assets during the year ended June 30, 2009 were as follows (dollar amounts in thousands):

| | Lives (Years) | 2008 | Additions and Transfers | Retirements and Transfers | 2009 |
|-------------------------------------------------|------------------|-------------|-------------------------------|---------------------------------|-------------|
| Capital assets, not being depreciated | | | | | |
| Land | N/A | \$ 530,623 | \$ 10,235 | \$ (854) | \$ 540,004 |
| Construction in progress | N/A | 801,281 | 244,487 | (76,974) | 968,794 |
| Total capital assets, not being depreciated | | 1,331,904 | 254,722 | (77,828) | 1,508,798 |
| Capital assets, being depreciated | | | | | |
| Tangible Asset | | | | | |
| Stations, track, structures and improvements | 80 | 3,651,075 | 118,737 | (46) | 3,769,766 |
| Buildings | 80 | 7,472 | - | - | 7,472 |
| System-wide operation and control | 20 | 548,721 | 23,837 | - | 572,558 |
| Revenue transit vehicles | 30 | 1,042,346 | - | - | 1,042,346 |
| Revenue transit vehicles under capital lease | 30 | 55,593 | - | - | 55,593 |
| Service and miscellaneous equipment | 3-20 | 188,395 | 14,181 | (532) | 202,044 |
| Capitalized construction and start-up costs | 30 | 98,305 | - | - | 98,305 |
| Repairable property items | 30 | 17,341 | 6,653 | (1,028) | 22,966 |
| Intangible Asset | | | | | |
| Information System | 20 | 14,407 | - | - | 14,407 |
| Total capital assets, being depreciated | | 5,623,655 | 163,408 | (1,606) | 5,785,457 |
| Less accumulated depreciation | | (1,874,813) | (136,764) | 1,309 | (2,010,268) |
| Total capital assets, being depreciated, net | | 3,748,842 | 26,644 | (297) | 3,775,189 |
| Total capital assets, net | | \$5,080,746 | \$ 281,366 | \$ (78,125) | \$5,283,987 |

With the completion of the San Francisco International Airport Extension in 2004, the District completed construction of Phase I of an extension program that added 38 miles of track and 10 new stations to the system. The District has now embarked on three expansion projects, which include the East Contra Costa BART Extension ("eBART") in Contra Costa County, the Oakland Airport Connector ("OAC") in Alameda County and the Warm Springs Extension ("WSX"), also in Alameda County. The OAC Project is expected to be in revenue operation in 2013, the WSX Extension in 2014 and the eBART Extension in 2015.

On May 26, 2009, the Surplus Property Authority of Alameda County ("Alameda Authority") conveyed to the District the ownership of a completed parking garage structure located at BART's East Dublin/Pleasanton Station. The new garage has an actual construction cost, as reported by its developer, of \$39,413,000. The Alameda Authority was responsible for the construction of the garage including all planning, all financing and all environmental, engineering, feasibility and other studies. The Alameda Authority took responsibility on the construction of the garage in exchange for an option to purchase approximately seven acres of land owned by the District located to the north of BART's East Dublin/Pleasanton Station, which is intended to be the site of a transit center which will include high-density housing and other transit-oriented uses suitable for a site adjacent to the station.

The Alameda Authority also donated to the District approximately three acres of land upon which a portion of the garage was located, and an adjacent parcel of land of approximately eight acres with a total established value of \$10,235,000. The donated assets were booked as capital assets with a credit to capital contribution.

On June 30, 2009, the District took ownership of a new parking structure located in BART's Pleasant Hill Station, from the Pleasant Hill BART Station Leasing Authority as its full payment of a 99-year ground lease on certain real property owned by the District located in the same station. The new parking structure was recorded as a capital asset at a value of \$51,236,000, which is its final construction cost as reported by its developer, with a credit to deferred revenue (Note 16).

The District has entered into contracts for the construction of various facilities and equipment totaling approximately \$1,036,766,000 at June 30, 2010, and \$884,558,000 in 2009.

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

The District reports the following aggregated payables as accounts payable and other liabilities in the statements of net assets as of June 30, 2010 and 2009 (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|-------------------|-------------------|
| Payable to vendors and contractors | \$ 105,292 | \$ 99,668 |
| Employee salaries and benefits | 126,694 | 114,438 |
| Accrued interest payable | 29,498 | 28,766 |
| Liabilities at the end of year | 261,484 | 242,872 |
| Less noncurrent portion | (60,281) | (42,686) |
| Net current portion | <u>\$ 201,203</u> | <u>\$ 200,186</u> |

June 30, 2010 and 2009

7. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2010 is summarized as follows (dollar amounts in thousands):

| | 2009 | Additions/ Accretion | Payments/ Amortization | 2010 |
|-----------------------------------------------------------------------|---------------------------|---------------------------------|-----------------------------------|---------------------------|
| 1990 Sales Tax Revenue Refunding Bonds | \$ 28,775 | \$ - | \$ - | \$ 28,775 |
| 1998 Sales Tax Revenue Bonds | 151,655 | - | (150,030) | 1,625 |
| 2001 Sales Tax Revenue Bonds | 43,765 | - | - | 43,765 |
| 2005 Sales Tax Revenue Refunding Bonds | 311,495 | - | (14,965) | 296,530 |
| 2006 Sales Tax Revenue Bonds | 64,915 | - | - | 64,915 |
| 2006 Sales Tax Revenue Refunding Bonds | 107,740 | - | (195) | 107,545 |
| 2010 Sales Tax Revenue Refunding Bonds | - | 129,595 | - | 129,595 |
| Construction Loans | 125,500 | - | (8,000) | 117,500 |
| Lease/Leaseback Obligation | 102,931 | - | (53,363) | 49,568 |
| 2002 SFO Extension Premium Fare Bonds | 54,955 | - | (715) | 54,240 |
| 2005 General Obligation Bonds | 41,360 | - | (870) | 40,490 |
| 2007 General Obligation Bonds | 400,000 | - | (20,490) | 379,510 |
| | <u>1,433,091</u> | <u>129,595</u> | <u>(248,628)</u> | <u>1,314,058</u> |
| Add (less): | | | | |
| Accumulated Accretion on Lease/ Leaseback Obligation | 22,945 | 5,096 | (16,254) | 11,787 |
| Debt-related items* | <u>1,161</u> | <u>11,098</u> | <u>112</u> | <u>12,371</u> |
| Long-term debt net of accumulated accretion and debt-related items | <u>1,457,197</u> | <u>\$ 145,789</u> | <u>\$ (264,770)</u> | <u>1,338,216</u> |
| Less: current portion of long-term debt | <u>(75,149)</u> | | | <u>(44,284)</u> |
| Net long-term debt | <u><u>\$1,382,048</u></u> | | | <u><u>\$1,293,932</u></u> |

* Debt-related items consist of deferred amounts on refundings, discounts and premiums.

Notes to Basic Financial Statements

June 30, 2010 and 2009

Long-term debt activity for the year ended June 30, 2009 is summarized as follows (dollar amounts in thousands):

| | 2008 | Additions/ Accretion | Payments/ Amortization | 2009 |
|-----------------------------------------------------------------------|-------------|-------------------------|---------------------------|-------------|
| 1990 Sales Tax Revenue Refunding Bonds | \$ 28,775 | \$ - | \$ - | \$ 28,775 |
| 1998 Sales Tax Revenue Bonds | 157,550 | - | (5,895) | 151,655 |
| 2001 Sales Tax Revenue Bonds | 43,765 | - | - | 43,765 |
| 2005 Sales Tax Revenue Refunding Bonds | 325,790 | - | (14,295) | 311,495 |
| 2006 Sales Tax Revenue Bonds | 64,915 | - | - | 64,915 |
| 2006 Sales Tax Revenue Refunding Bonds | 107,930 | - | (190) | 107,740 |
| Construction Loans | 130,500 | - | (5,000) | 125,500 |
| Lease/Leaseback Obligation | 103,643 | - | (712) | 102,931 |
| 2002 SFO Extension Premium Fare Bonds | 55,595 | - | (640) | 54,955 |
| 2005 General Obligation Bonds | 67,320 | - | (25,960) | 41,360 |
| 2007 General Obligation Bonds | 400,000 | - | - | 400,000 |
| | 1,485,783 | - | (52,692) | 1,433,091 |
| Add (less): | | | | |
| Accumulated Accretion on Lease/ Leaseback Obligation | 20,981 | 8,550 | (6,586) | 22,945 |
| Debt-related items* | 992 | - | 169 | 1,161 |
| Long-term debt net of accumulated accretion and debt-related items | 1,507,756 | \$ 8,550 | \$ (59,109) | 1,457,197 |
| Less: current portion of long-term debt | (59,279) | | | (75,149) |
| Net long-term debt | \$1,448,477 | | | \$1,382,048 |

* Debt-related items consist of deferred amounts on refundings, discounts and premiums.

1990 Sales Tax Revenue Refunding Bonds (the 1990 Refunding Bonds)

In July 1990, the District issued sales tax revenue refunding bonds totaling \$158,478,000 to refund and defease the \$141,045,000 outstanding principal amount of the District's Sales Tax Revenue Bonds, Series 1985. The 1990 Refunding Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 2010, the 1990 Bonds consist of \$28,775,000 in current interest serial bonds due from 2010 to 2011 with an interest rate of 6.75%.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)

In March 1998, the District issued sales tax revenue bonds totaling \$348,510,000 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities, to repay obligations of approximately \$49,645,000 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of \$155,115,000 to achieve debt

service savings. The 1998 Bonds are special obligations of the District payable from and collateralized by a pledge of sales tax revenues. In August 2005, a portion of the 1998 Bonds with an aggregate principal amount of \$155,650,000 was refunded from the proceeds of the 2005 Bonds. In May 2010, 1998 Bonds with an aggregate principal amount of \$143,825,000 were refunded from the proceeds of the 2010 Refunding Bonds. At June 30, 2010, the 1998 Bonds consist of \$1,625,000 in serial bonds due on July 1, 2010 with an interest rate of 5.25%.

2001 Sales Tax Revenue Bonds (the 2001 Bonds)

In July 2001, the District issued sales tax revenue bonds totaling \$168,650,000 to fund the rehabilitation of District rail cars and certain other capital improvements, to fund capital reserves to be utilized in connection with the SFO Extension project, and to refund certain outstanding bonds with principal amounts of \$41,175,000. The 2001 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. In August 2005, 2001 Bonds with principal amounts totaling \$19,640,000 were refunded from the proceeds of the 2005 Bonds. Another refunding of the 2001 Bonds occurred in July 2006 when 2001 Bonds with principal amounts totaling \$102,560,000 were refunded from the proceeds of the 2006 Refunding Bonds. At June 30, 2010, the 2001 Bonds consist of \$15,310,000 in serial bonds due from 2012 to 2021 with interest rates ranging from 4.375% to 5.250%, a \$7,225,000 term bond due July 1, 2026 with an interest rate of 5%, a \$9,275,000 term bond due July 1, 2031 with an interest rate of 5%, and a \$11,955,000 term bond due July 1, 2036 with an interest rate of 5.125%. The District is required to make sinking fund payments on the term bond due July 1, 2026 beginning on July 1, 2022, on the term bond due July 1, 2031 beginning July 1, 2027, and on the term bond due on July 1, 2036 beginning on July 1, 2032. In addition, the 2001 Bonds maturing on or after July 1, 2012 may be redeemed prior to their respective stated maturities, at the option of the District, as a whole or in part, on any date on or after July 1, 2011, at the principal amount called for redemption plus interest accrued thereon to the date fixed for redemption without premium.

2005 Sales Tax Revenue Refunding Bonds (the 2005 Refunding Bonds)

In August 2005, the District issued the Sales Tax Revenue Bonds, Refunding Series 2005A totaling \$352,095,000. The 2005 Refunding Bonds were used to advance refund \$349,925,000 in aggregate principal amount of sales tax revenue bonds related to the Sales Tax Revenue Bonds, Series 1995, 1998, 1999 and 2001. The 2005 Refunding Bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 2010, the 2005 Refunding Bonds consist of \$207,410,000 in serial bonds due from 2010 to 2026 with interest rates ranging from 3.25% to 5.00%, two 5.00% term bonds in the amounts of \$55,685,000 and \$31,785,000 due in 2030 and 2034, respectively, and one 4.50% term bond for \$1,650,000 due in 2030.

2006 Sales Tax Revenue Bonds (the 2006 Bonds)

In June 2006, the District issued sales tax revenue bonds with an aggregate principal amount of \$64,915,000 to finance a portion of the cost of construction of a new transit station, the West Dublin/Pleasanton Station, including two parking facilities, pedestrian bridges, a bus intermodal facility and related improvements. The 2006 Bonds are special obligations of the District payable from and secured by a pledge of sales tax revenues. At June 30, 2010, the 2006 Bonds outstanding consist of \$20,110,000 in serial bonds due from 2014 to 2026 with interest rates ranging from 4.0% to 4.625%, \$17,995,000 in term bonds due July 1, 2031 with 5.0% interest rate and \$26,810,000 in term bonds due July 1, 2036 at 5.0% interest rate. The term bonds are subject to mandatory sinking account payments beginning in 2027 for the term bonds due in 2031 and 2032 for the term bonds due in 2036.

2006 Sales Tax Revenue Refunding Bonds (the 2006 Refunding Bonds)

On November 30, 2006, the District issued the Sales Tax Revenue Bonds, Refunding Series 2006A, with a principal amount of \$108,110,000 to advance refund a portion of the 2001 Bonds with an aggregate principal amount of \$102,560,000. The 2006 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. At June 30, 2010, the 2006 Refunding Bonds consist of serial bonds amounting to \$52,975,000 with interest rates ranging from 4.0% to 5.0%, and term bonds totaling \$54,570,000 of various maturity dates from 2029 to 2036 with an interest rate of 4.25%. The term bonds are subject to redemption in part, by lot, from Mandatory Sinking Account Payments required by the Indenture on certain dates, at the principal amount of the 2006 Refunding Bonds to be redeemed plus accrued interest, if any, to the redemption date.

2010 Sales Tax Revenue Refunding Bonds (the 2010 Refunding Bonds)

On May 5, 2010, the District issued the Sales Tax Revenue Bonds, Refunding Series 2010, with a principal amount of \$129,595,000 to provide sufficient funds to refund a portion of the 1998 Bonds with an aggregate principal amount of \$143,825,000, to fund a deposit to the Series 2010 Reserve Account in the bond reserve fund and to pay costs of issuance of the Series 2010 Bonds. The District funded from its own funds the Bond Reserve Fund in the amount of \$14,202,000. The 2010 Refunding Bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues. The 2010 Refunding Bonds consist of serial bonds amounting to \$129,595,000 with interest rates ranging from 3.0% to 5.0%, with various maturity dates from 2011 to 2028.

The net proceeds from the refunding, which include premium of \$16,065,000 and residual cash balance of \$2,353,000 provided by the old debt and after paying costs of issuance of \$686,000, amounted to \$147,327,000. The net proceeds of \$147,327,000 were placed into an irrevocable trust with an escrow agent to provide for the redemption of the refunded bonds. At June 30, 2010, the outstanding balance, principal and interest, of the defeased bonds was \$147,352,000.

Although the refunding resulted in the accounting recognition of a deferred loss of \$4,936,000 for the year ended June 30, 2010, the District in effect reduced its aggregate debt service payments by \$22,638,000 and generated net economic savings through the refunding (difference between the present values of the old and new debt service payments) of \$15,756,000.

Construction Loans

In March 1999, the District, MTC and San Mateo County Transit District ("SamTrans") entered into a Memorandum of Understanding ("MOU"), which provided additional funds for the SFO Extension project in the form of construction loans from each agency.

As of June 30, 2010, the construction loans consist of funds received for the SFO Extension project costs from SamTrans for \$72,000,000 and MTC for \$16,500,000 and \$29,000,000 from MTC for the project's temporary cash requirements. The District provided \$50,000,000 of its own funds to assist with the financing of the SFO Extension project costs. The terms and conditions of the MOU provide that the loans for project costs will be repaid, without interest, from the future net operating surplus generated by the SFO Extension. Such repayments of the loans for project costs from SamTrans and MTC totaling \$88,500,000, plus reimbursement of the District's \$50,000,000, will commence after SamTrans' capital contribution to the District's Warm Springs Extension project is fully paid. MTC's loan for the project's temporary cash requirements of \$29,000,000 is repaid from the District's general funds amortized over a nine-year period ending in June 2015, with a 3% simple interest rate.

Lease/Leaseback Obligation

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the “Network”) to investors through March 19, 2042 (the “head lease”), and simultaneously sublease the Network back through January 2, 2018 (the “sublease”). At the expiration of the sublease term the District has the option to purchase back the remaining head lease interest.

At closing, the Network had a fair market value of approximately \$206,000,000 and a book value of \$203,000,000. Under the terms of the head lease, the District received a prepayment equivalent to the net present value of the head lease obligation totaling approximately \$206,000,000, of which the District paid approximately \$146,000,000 to a payment undertaker. Under the terms of the agreement, the payment undertaker committed to pay the debt portion of the District’s sublease obligation and to set aside funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. Of the remaining head lease proceeds, approximately \$37,000,000 was deposited into a trust account to be used to pay the remaining equity portion of the District’s sublease obligation and to set aside additional funds to enable the District to exercise its purchase option of the head lease interest, if it chooses to do so. The District received cash from the lease/leaseback transaction amounting to approximately \$23,000,000. The cash gain was deferred and is being amortized over a period of 15.75 years through January 2, 2018. The unamortized balance of the deferred gain at June 30, 2010 was \$11,128,000 and \$12,611,000 at June 30, 2009. In accordance with generally accepted accounting principles in the United States of America, the District has reflected this transaction as a financing transaction. The District has recorded the payment to the payment undertaker as a deposit for the sublease obligation and the deposit to the trust account as an investment, and the net present value of the future sublease payments and exercise price of the purchase option as long-term debt.

Under the terms of the agreement, if the credit rating of the payment undertaker falls below Baa1 for Moody’s Investor or BBB+ for Standard & Poor’s, the District will be required to replace the payment undertaker with a AAA Moody’s Investor and Standard & Poor’s rated entity. Failure to replace the payment undertaker will result in a default penalty. As of June 30, 2010, the payment undertaker’s credit rating was A3 for Moody’s Investor and A- for Standard & Poor’s. Under this transaction, the District maintains the right to continued use and control of the Network through the end of the sublease term.

On September 2, 2009, the District entered into a Termination Agreement with Key Equipment Finance, Inc., which is one of the three Equity Investors in the Lease/Leaseback transaction. Under the terms of the Termination Agreement, the District bought back the portion of the head lease interest identified with Key Equipment Finance for a total purchase price equal to the sum of (1) \$30,559,000 plus (2) all principal and interest related to the debt portion of the District sublease obligation to Key Equipment Finance Inc. Subject to the terms and conditions of the Termination Agreement, Key Equipment Finance, Inc. acknowledges that all of its respective right, title, and interest in and to the Head Lease Interest, the Network and the Software Rights are automatically terminated and all such right, title and interest vest in the District.

The District recognized a loss of \$5,489,000 related to this early termination, which is the net result of investments plus accreted interest income totaling \$30,559,000 used to liquidate the net Lease/Leaseback obligation of \$25,070,000 identified to the portion of the head lease and sublease interest of Key Equipment Finance. The net lease/leaseback obligation of \$25,070,000 that was bought back by the District consists of the difference between (1) the sublease payable of \$54,394,000 consisting of a principal amount of \$42,887,000 and accrued interest of \$11,507,000 and (2) the head lease receivable amount of \$29,324,000 made up of a principal amount of \$27,529,000 and accrued interest of \$1,795,000. The details of the lease/leaseback obligation, including the accretion of interest, are as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------------|------------------|-------------------|
| Long-term debt at beginning of year | \$ 125,876 | \$ 124,624 |
| Interest expense incurred during the year | 5,096 | 8,550 |
| Payment/Amortization of principal | (53,363) | (712) |
| Amortization of accumulated accretion | (16,254) | (6,586) |
| Total long-term debt at end of year | 61,355 | 125,876 |
| Lease amortization in one year | (6,814) | (23,709) |
| Net long-term debt at end of year | <u>\$ 54,541</u> | <u>\$ 102,167</u> |

2002 SFO Extension Premium Fare Bonds (the Airport Premium Fare Bonds)

On October 1, 2002, the Association of Bay Area Governments ("ABAG") issued BART SFO Extension Bonds ("Airport Premium Fare Bonds"), 2002 Series, in the amount of \$56,715,000. The Airport Premium Fare Bonds were issued for the benefit of the District's SFO Extension project. The proceeds were used to finance a portion of the costs of the SFO Extension project, including all system-wide and associated improvements and expenditures related to the extension. The Airport Premium Fare Bonds are limited obligations of ABAG payable solely from and collateralized solely by amounts received from the District pursuant to a Pledge and Contribution Agreement, dated October 1, 2002, between ABAG and the District. The Airport Premium Fare Bonds are not a general obligation of ABAG. The District's obligation to make payments under the Pledge and Contribution Agreement is limited to and payable solely from and collateralized solely by a pledge of the premium fare imposed and collected by the District from passengers who board or depart the District's rapid transit system at the San Francisco International Airport Station. The District's obligation to make such payments under the Pledge and Contribution Agreement is not a general obligation of the District. The payment of the principal and interest when due are insured by a financial guaranty insurance policy issued by an insurance company. At June 30, 2010, the 2002 Airport Premium Fare Bonds consist of \$19,040,000 in serial bonds due from 2010 to 2022 with interest rates ranging from 3.25% to 5.00%, a \$11,230,000 term bond due August 1, 2026 with an interest rate of 5.00%, and a \$23,970,000 term bond due August 1, 2032 with an interest rate of 5.00%. The District is required to make sinking fund payments on the term bond due August 1, 2026 beginning on August 1, 2023 and on the term bond due August 1, 2032 beginning on August 1, 2027.

2005 General Obligation Bonds (the 2005 GO Bonds)

In May 2005, the District issued the General Obligation Bonds (Elections 2004), 2005 Series A with an aggregate principal amount of \$100,000,000. The 2005 GO Bonds constitute a portion of the total authorized amount of \$980,000,000 of general obligation bonds of the District duly authorized by at least two-thirds of the qualified voters of the District voting on a ballot measure ("Measure AA") at an election held on November 2, 2004. The 2005 GO Bonds constitute the first issue of general obligation bonds being issued pursuant to the Measure AA authorization.

The 2005 GO Bonds were issued to finance earthquake safety improvements to BART facilities, including aerial trackway structures, underground trackway structures, including the Transbay Tube, and at-grade trackway structures, stations, and administrative, maintenance, and operations facilities and to finance additional retrofits to facilitate a rapid return to service after an earthquake or other disasters. The 2005 GO Bonds are general obligations of the District, payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates) levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2005 GO Bonds. At June 30, 2010, the 2005 GO Bonds consist of \$20,875,000 in serial bonds due from 2010 to 2026 with interest ranging from 3.00% to 5.00%, a \$7,720,000 term bond at 4.50% due in 2030 and a \$11,895,000 term bond at 5.00% due in 2035. The District is required to make sinking fund payments on the term bond due in 2030 beginning in 2027 and on the term bond due in 2035 beginning in 2031.

2007 General Obligation Bonds (the 2007 GO Bonds)

On July 25, 2007, the District issued the General Obligation Bonds (Election of 2004), 2007 Series B with a principal amount of \$400,000,000. The 2007 GO Bonds constitute the second issue of general obligation bonds being issued pursuant to the Measure AA authorization as discussed in the preceding paragraph regarding the 2005 GO Bonds. Similar to the 2005 GO Bonds, the 2007 GO Bonds were issued to finance earthquake safety improvements to BART facilities in the three BART counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay Tube. The 2007 GO Bonds are general obligations of the District payable from and secured solely by ad valorem taxes upon all property subject to taxation by the District levied in Alameda and Contra Costa Counties and the City and County of San Francisco. No other revenues of the District are pledged to the payment of the 2007 GO Bonds. At June 30, 2010, the 2007 GO Bonds consist of \$115,060,000 in serial bonds due from 2010 to 2027 with interest rates ranging from 3.70% to 5.0%, and three term bonds totaling \$264,450,000 due in 2032, 2035 and 2037 with interest rates ranging from 4.75% to 5.0%. The bonds maturing in 2032, 2035 and 2037 are subject to mandatory sinking fund redemptions starting in 2028, 2033 and 2036, respectively.

After the issuance of the 2005 and the 2007 GO Bonds, the remaining amount in General Obligation Bonds that can be issued by the District as authorized under Measure AA is \$480,000,000.

June 30, 2010 and 2009

Defeased Bonds

On various dates, the District issued bonds to refund certain outstanding sales tax revenue bonds previously issued by the District. In August 2005, the District refunded \$349,925,000 as the aggregate principal amount of bonds outstanding from the proceeds of the 2005 Refunding Bonds. The bonds refunded in August 2005 consisted of \$45,275,000 of the 1995 Bonds, \$155,650,000 of the 1998 Bonds, \$129,360,000 of the 1999 Bonds and \$19,640,000 of the 2001 Bonds. In November 2006, a portion of the 2001 Bonds with an aggregate principal amount of \$102,560,000 was advance refunded from the proceeds of the 2006 Refunding Bonds. The most recent refunding occurred in May 2010, when a portion of the 1998 Bonds with an aggregate principal amount of \$143,825,000 was refunded from the proceeds of the 2010 Refunding Bonds.

On all defeasances, the District placed in irrevocable trusts the required amounts to pay the future debt service payments on the defeased bonds. The advance refunding met the requirement of the in-substance debt defeasance, and the defeased bonds were removed from the District's long-term debt. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the District's financial statements.

The outstanding principal balance of the defeased bonds as of June 30, 2010 and 2009 is \$266,025,000 and \$245,205,000, respectively, and consists of (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|--------------------------|-------------------|-------------------|
| August 2005 defeasance | \$ 19,640 | \$ 142,645 |
| November 2006 defeasance | 102,560 | 102,560 |
| May 2010 defeasance | 143,825 | - |
| | <u>\$ 266,025</u> | <u>\$ 245,205</u> |

The District deferred, and amortized as a component of interest, the difference between the reacquisition price and the net carrying amount of the old debts and amortized over the life of the defeased bonds. The unamortized balance of deferred loss on early debt retirement is \$31,871,000 at June 30, 2010 and \$28,265,000 on June 30, 2009. Amortization expense on these deferred charges was \$1,362,000 in fiscal year 2010 and \$1,330,000 in 2009.

Arbitrage Bonds

The District is subject to certain bond covenants, including the rules set forth by IRS Code Section 148a, which requires that interest earned on the proceeds of a tax-exempt bond issuance does not exceed the interest expense related to those bonds, which qualifies those bonds as arbitrage bonds. Any excess interest income is subject to a 100% tax and is payable to the federal government. As of June 30, 2010, the District has recorded an estimated arbitrage liability amounting to \$2,520,000 and \$1,677,000 in 2009, which is included in accounts payable and other liabilities in the statements of net assets.

Sales Tax Revenue Bonds

The District issues sales tax revenue bonds primarily to finance a portion of its capital projects. The sales tax revenue bonds are special obligations of the District, payable from and secured by a pledge of sales tax revenues derived from a seventy-five percent (75%) portion of a transactions and use tax levied by the District in Alameda and Contra Costa Counties and the City and County of San Francisco in an amount equal to one-half of one percent (0.5%) of gross retail receipts. The sales tax revenue bonds outstanding as of June 30, 2010 consist of the 1990 Refunding Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Refunding Bonds, the 2006 Bonds, the 2006 Refunding Bonds, and the 2010 Refunding Bonds. Interest on the sales tax revenue bonds is payable on January 1 and July 1 of each year, and the principal on July 1 of the scheduled year until 2036. The total principal and interest remaining on these sales tax revenue bonds is \$1,091,274,000 as of June 30, 2010 (\$1,165,024,000 as of June 30, 2009), which is 21% in 2010 (17% in 2009) of the total projected sales tax revenues of \$5,223,971,000 as of June 30, 2010 (\$6,943,480,000 as of June 30, 2009). The pledged sales tax revenues recognized in fiscal year 2010 were \$166,520,000 (\$184,286,000 in fiscal year 2009) as against a total debt service payment of \$54,639,000 in fiscal year 2010 (\$57,327,000 in fiscal year 2009).

Premium Fare Bonds

The SFO Airport premium fare bonds were issued in 2002 to provide financing for a portion of the construction costs of the SFO Extension project, which was completed and started revenue operations in 2004. The premium fare bonds are payable from and secured by a pledge of premium fares generated by BART's SFO Station. Interest on the premium fare bonds is payable on February 1 and August 1 of each year, and the principal on August 1 of the scheduled year until 2032. The total principal and interest remaining on the premium fare bonds as of June 30, 2010 is \$93,088,000 (\$96,475,000 on June 30, 2009), which is 27% of the total projected SFO Station premium fare revenues of \$363,575,000. The pledged SFO Station premium fare revenues recognized in fiscal year 2010 were \$14,373,000 (\$5,850,000 in fiscal year 2009) as against a total debt service payment of \$3,387,000 in fiscal year 2010 (\$3,333,000 in fiscal year 2009).

Debt Repayments

The following is a schedule of long-term debt principal and interest payments required as of June 30, 2010 (dollar amounts in thousands):

| Year ending June 30: | Sales Tax Revenue Bonds | | | | | | | |
|-------------------------|-------------------------|-----------------|-----------------|-------------|------------------|------------------|-------------------|-------------------|
| | 1990 Bonds | | 1998 Bonds | | 2001 Bonds | | 2005 Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 13,870 | \$ 1,006 | \$ 1,625 | \$ - | \$ - | \$2,200 | \$ 6,840 | \$ 14,005 |
| 2012 | 14,905 | - | - | - | - | 2,200 | 8,225 | 13,593 |
| 2013 | - | - | - | - | 2,020 | 2,111 | 9,010 | 13,242 |
| 2014 | - | - | - | - | 2,120 | 2,005 | 12,630 | 12,651 |
| 2015 | - | - | - | - | 2,230 | 1,892 | 13,445 | 12,006 |
| 2016-2020 | - | - | - | - | 6,520 | 8,336 | 74,740 | 48,869 |
| 2021-2025 | - | - | - | - | 6,535 | 6,846 | 42,830 | 36,636 |
| 2026-2030 | - | - | - | - | 8,395 | 4,942 | 89,995 | 17,493 |
| 2031-2035 | - | - | - | - | 10,795 | 2,480 | 38,815 | 4,070 |
| 2036-2039 | - | - | - | - | 5,150 | 135 | - | - |
| Thereafter | - | - | - | - | - | - | - | - |
| | <u>\$ 28,775</u> | <u>\$ 1,006</u> | <u>\$ 1,625</u> | <u>\$ -</u> | <u>\$ 43,765</u> | <u>\$ 33,147</u> | <u>\$ 296,530</u> | <u>\$ 172,564</u> |

| Year ending June 30: | 2006 Bonds | | 2006 Refunding Bonds | | 2010 Bonds | |
|-------------------------|------------------|------------------|----------------------|------------------|-------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ - | \$ 3,131 | \$ 205 | \$ 4,627 | \$ - | \$ 6,961 |
| 2012 | - | 3,131 | 210 | 4,619 | 415 | 6,222 |
| 2013 | - | 3,131 | 5,885 | 4,324 | 3,385 | 6,120 |
| 2014 | - | 3,131 | 2,190 | 4,215 | 1,530 | 6,074 |
| 2015 | 145 | 3,125 | 2,070 | 4,111 | 1,580 | 6,027 |
| 2015-2020 | 4,970 | 15,110 | 8,645 | 19,599 | 21,245 | 28,198 |
| 2021-2025 | 9,710 | 13,361 | 19,755 | 16,309 | 71,450 | 14,291 |
| 2026-2030 | 5,285 | 10,369 | 24,410 | 11,550 | 29,990 | 2,341 |
| 2031-2035 | 17,995 | 5,467 | 30,185 | 5,648 | - | - |
| 2036-2039 | 26,810 | 310 | 13,990 | 303 | - | - |
| Thereafter | - | - | - | - | - | - |
| | <u>\$ 64,915</u> | <u>\$ 60,266</u> | <u>\$ 107,545</u> | <u>\$ 75,306</u> | <u>\$ 129,595</u> | <u>\$ 76,234</u> |

Notes to Basic Financial Statements

June 30, 2010 and 2009

| Year ending June 30: | Construction Loans | | Lease/Leaseback Obligation | |
|-------------------------|--------------------|-----------------|-------------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 8,000 | \$ 870 | \$ 5,192 | \$ 4,054 |
| 2012 | 8,000 | 630 | - | 3,987 |
| 2013 | 8,000 | 390 | - | 4,244 |
| 2014 | 5,000 | 150 | - | 4,536 |
| 2015 | - | - | 44,375 | 4,834 |
| 2015-2020 | - | - | - | 15,130 |
| 2021-2025 | - | - | - | - |
| 2026-2030 | - | - | - | - |
| 2031-2035 | - | - | - | - |
| 2036-2039 | - | - | - | - |
| Thereafter | 88,500 | - | - | - |
| | <u>\$ 117,500</u> | <u>\$ 2,040</u> | <u>\$ 49,567</u> | <u>\$ 36,785</u> |

| Year ending June 30: | 2002 SFO Extension Premium Fare Bonds | | 2005 General Obligation Bonds | | 2007 General Obligation Bonds | | Total | |
|-------------------------|---------------------------------------------|------------------|-------------------------------------|------------------|-------------------------------------|-------------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | \$ 795 | \$ 2,647 | \$ 895 | \$ 1,829 | \$ 5,240 | \$ 18,301 | \$ 42,662 | \$ 59,631 |
| 2012 | 875 | 2,617 | 920 | 1,801 | 405 | 18,270 | 33,955 | 57,068 |
| 2013 | 965 | 2,583 | 950 | 1,770 | 900 | 18,237 | 31,115 | 56,153 |
| 2014 | 1,055 | 2,532 | 980 | 1,737 | 1,435 | 18,182 | 26,940 | 55,213 |
| 2015 | 1,165 | 2,474 | 1,015 | 1,701 | 2,010 | 18,103 | 68,035 | 54,273 |
| 2016-2020 | 7,740 | 11,285 | 5,665 | 7,859 | 20,535 | 88,357 | 150,060 | 242,744 |
| 2021-2025 | 11,650 | 8,802 | 7,090 | 6,324 | 43,610 | 80,455 | 212,630 | 183,025 |
| 2026-2030 | 16,805 | 5,165 | 9,020 | 4,330 | 75,960 | 65,077 | 259,860 | 121,267 |
| 2031-2035 | 13,190 | 743 | 11,340 | 1,888 | 121,675 | 39,729 | 243,995 | 60,025 |
| 2036-2039 | - | - | 2,615 | 11 | 107,740 | 5,948 | 156,305 | 6,708 |
| Thereafter | - | - | - | - | - | - | 88,500 | - |
| | <u>\$ 54,240</u> | <u>\$ 38,848</u> | <u>\$ 40,490</u> | <u>\$ 29,249</u> | <u>\$ 379,510</u> | <u>\$ 370,659</u> | <u>\$1,314,057</u> | <u>\$ 896,107</u> |

8. RISK MANAGEMENT

The District is partially self-insured for workers' compensation, public liability and property damage claims. The self-insured retention for workers' compensation is \$4,000,000 per accident and the limit of liability is \$10,000,000. The self-insured retention for public liability and property damage is \$5,000,000 for any one occurrence. Claims in excess of self-insured retentions are covered up to a total of \$95,000,000 by insurance policies. There have been no settlement amounts during the past three years that have exceeded the District's insurance coverage.

The self-insurance programs are administered by independent claims adjustment firms. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are discounted at a 3 % rate, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and include estimates of claims that have been incurred but not yet reported, including loss adjustment expenses. Such reserves are estimated by professional actuaries through March 31 and are subject to periodic adjustments as conditions warrant.

The estimated liability for insurance claims at June 30, 2010 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents occurring through that date. At June 30, 2010 and 2009, the estimated amounts of these liabilities were \$27,645,000 and \$29,370,000, respectively. Changes in the reported liabilities since the beginning of the respective fiscal years are as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|----------------------------------------------|------------------|------------------|
| Liabilities at beginning of year | \$ 29,370 | \$ 28,246 |
| Current year claims and changes in estimates | 11,872 | 9,267 |
| Payments of claims | (13,597) | (8,143) |
| Liabilities at the end of year | 27,645 | 29,370 |
| Less current portion | (11,333) | (10,441) |
| Net noncurrent portion | <u>\$ 16,312</u> | <u>\$ 18,929</u> |

9. FEDERAL CAPITAL CONTRIBUTIONS AND OPERATING FINANCIAL ASSISTANCE

The U.S. Department of Transportation and other federal agencies provide capital funding to the District for construction projects, planning and technical assistance. Cumulative information for grants which were active during the years ended June 30, 2010 and 2009 are summarized as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------------|------------------|------------------|
| Total approved project costs | \$2,716,542 | \$2,267,335 |
| Cumulative amounts of project costs | | |
| incurred and earned | \$1,356,936 | \$1,155,690 |
| Less: approved federal allocations received | (1,293,344) | (1,139,698) |
| Capital grants receivable – federal | <u>\$ 63,592</u> | <u>\$ 15,992</u> |

The District's fleet replacement program consisting of construction for the A, B, C1 and C2 fleet replacement is scheduled to begin in 2013. To set aside funding for this future need, the District and MTC, on May 24, 2006, entered into the BART Car Replacement Funding Exchange Agreement. Under the agreement, MTC agrees to program federal funds to eligible BART projects that are ready to be delivered within the year of MTC's programming action. In exchange for MTC programming funds for ready-to-go BART projects, the District will deposit an equal amount of local unrestricted funds into a restricted account established to fund BART's car replacement program. MTC is the exclusive administrator of the restricted account and any withdrawal of funds from the account requires prior approval from the MTC Commission and the District's Board. In accordance with the agreement, MTC allocated Federal Section 5307 Grants for \$22,683,000 in fiscal year 2010 and \$22,682,000 in fiscal year 2009 to fund the District's preventive maintenance expenses. Accordingly, the District remitted to MTC the equivalent amount of its own funds, which was deposited by MTC to the restricted account. The federal grant is shown as nonoperating revenue—operating financial assistance and the District's remittance to MTC is shown as nonoperating expense in the District's financial statements.

The restricted account for BART's car replacement program, which is excluded from the District's financial statements, showed a total cash and investment balance, at market value, of \$93,890,000 as of June 30, 2010 and \$71,024,000 as of June 30, 2009.

10. STATE AND LOCAL OPERATING AND CAPITAL FINANCIAL ASSISTANCE

The District is eligible to receive local operating and capital assistance from the Transportation Development Act Funds ("TDA"). There was no TDA operating or capital assistance received in fiscal years 2010 or 2009. The District may be entitled to receive state operating and capital assistance from the State Transit Assistance Funds ("STA"). These funds are allocated by MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies. The District received STA operating allocations of \$801,000 in fiscal year 2009 and zero in fiscal year 2010. The District also received STA capital allocations amounting to \$1,170,000 awarded in fiscal year 2004, \$150,000 awarded in fiscal year 2008 and \$227,000 awarded in fiscal year 2009 of which \$176,000 was earned during fiscal year 2010 and \$228,000 in fiscal year 2009.

The District receives paratransit funds provided to cities and transit operators from Alameda County Measure B funds to be used for services aimed at improving mobility for seniors and persons with disabilities. The Alameda County Transportation Improvement Authority ("ACTIA") is the administrator of Measure B funds. In fiscal year 2010, the District's revenues that relate to the Measure B funds were \$1,311,000 (\$1,494,000 in fiscal year 2009) for the annual assistance for paratransit operating funds and \$44,000 (\$69,000 in fiscal year 2009) for a new rider care specialist position in the paratransit broker's office to address complex rider problems, initiate education and outreach programs, improve new rider orientation and service planning; and \$13,000 (zero in fiscal year 2009) for consulting services for the Learn BART Project; and \$58,000 (zero in fiscal year 2009) from the Contra Costa Transportation Authority Measure J funds for operating expenses.

June 30, 2010 and 2009

On February 28, 2007, the District, SamTrans and MTC entered into a Tri-Party Financial Agreement establishing the new operational and financial arrangement regarding the BART San Francisco International Airport Extension. To fund the operating costs of the SFO Extension, the agreement provided that (1) the District will receive upfront funding of \$24,000,000 from MTC and \$32,000,000 from SamTrans from their shares of Proposition 1B funds; (2) the District will also receive 2% of the San Mateo County half-cent sales tax, Measure A, which was reauthorized by the voters of San Mateo County in 2004, for 25 years beginning in fiscal year 2009; this amount is currently equal to approximately \$1,200,000 per year; and (3) MTC shall allocate to the District additional STA revenue-based funds beginning in fiscal year 2009, which would otherwise be available for allocation to SamTrans as a result of the completion of the Traffic Congestion Relief Program projects, in an amount of \$801,000 annually. The above funds will be used first to cover any operating deficit on the SFO Extension and then to complete SamTrans' funding commitment of \$145,000,000 to the District's Warm Springs Extension Project. The upfront funding of \$24,000,000 from MTC was allocated to the District in 2008 in the form of a capital grant funded by Regional Measure 2 (RM2) revenues. For the purpose of the Tri-Party Agreement, the District is required to make a deposit to the reserve account in an amount equal to the capital reimbursement received from MTC/RM2 revenues. In accordance with the Tri-Party Financial Agreement, the District recognized contributions in fiscal year 2010 of \$4,176,000 from SamTrans (\$521,000 in fiscal year 2009) and \$4,919,000 from MTC (\$801,000 in fiscal year 2009). As of June 30, 2010, the balance of the reserve account is as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|------------------------------------------|-----------------|-----------------|
| Reserve account at beginning of year | \$ 2,009 | \$ 3,476 |
| Received/Accrued | 9,095 | 1,322 |
| Add interest earnings | 7 | 13 |
| Total | <u>11,111</u> | <u>4,811</u> |
| Less: amount used to cover SFO Extension | | |
| operating shortfall | (7,830) | (2,802) |
| Reserve account at end of year | <u>\$ 3,281</u> | <u>\$ 2,009</u> |

PTMISEA Grants

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, approved by the voters as Proposition 1B on November 7, 2006, includes a program of funding in the amount of \$4 billion to be deposited into the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). Of this amount, \$3.6 billion in the PTMISEA is available to project sponsors in California for allocation to eligible public transportation projects.

The District had received a total of \$100,735,000 in PTMISEA grant funds to fund various BART capital projects. The grants received are in the form of cash for \$95,220,000 and reimbursement grants for \$5,515,000.

Notes to Basic Financial Statements

June 30, 2010 and 2009

The following schedules show the changes in activities related to the PTMISEA grant funds during the fiscal years 2010 and 2009 (dollar amounts in thousands):

| 2010 | Grant Fund Balance at Beginning of Year | Grants Received | Project Costs Incurred | Grant Fund Balance at End of Year |
|---------------------------|--------------------------------------------------------|----------------------------|-----------------------------------|--------------------------------------------------|
| eBART Extension | \$ 233 | \$ 6,000 | \$ 4,295 | \$ 1,938 |
| Ashby Elevator | 1,879 | - | 1,404 | 475 |
| Station Modernization | 30,566 | 21,532 | 7,991 | 44,107 |
| Seismic Retrofit | 17,671 | (12,801)* | 4,660 | 210 |
| Oakland Airport Connector | - | 12,801 * | 1,859 | 10,942 |
| Warm Springs Extension | - | 1,336 | - | 1,336 |
| Balboa West Side Entrance | - | 1,154 | - | 1,154 |
| Station Signage | 679 | 4,800 | 593 | 4,886 |
| | <u>\$ 51,028</u> | <u>\$ 34,822</u> | <u>\$ 20,802</u> | <u>\$ 65,048</u> |
| 2009 | Grant Fund Balance at Beginning of Year | Grants Received | Project Costs Incurred | Grant Fund Balance at End of Year |
| eBART Extension | \$ 2,998 | - | \$ 2,765 | \$ 233 |
| Ashby Elevator | 2,000 | - | 121 | 1,879 |
| Station Modernization | 35,595 | - | 5,029 | 30,566 |
| Seismic Retrofit | 24,000 | - | 6,329 | 17,671 |
| Station Signage | - | 715 | 36 | 679 |
| | <u>\$ 64,593</u> | <u>\$ 715</u> | <u>\$ 14,280</u> | <u>\$ 51,028</u> |

* These grants were re-programmed during the fiscal year ended June 30, 2010.

As of June 30, 2010 and 2009, the cash available, which includes the unused portion of grant funds received in cash and the associated interest, is shown on the statements of net assets as a component of deferred revenues as follows (dollar amounts in thousands):

| | 2010 | 2009 |
|-----------------------------|------------------|------------------|
| Cash available, end of year | \$ 61,174 | \$ 51,179 |
| Less noncurrent portion | (29,240) | (35,544) |
| Net current portion | <u>\$ 31,934</u> | <u>\$ 15,635</u> |

At the end of fiscal year 2010, the PTMISEA funds had earned interest income of \$1,012,000, of which \$182,000 was earned in fiscal year 2010 and \$669,000 in fiscal year 2009.

11. EMPLOYEES' RETIREMENT BENEFITS

Plan Description

All eligible employees participate in the Public Employees' Retirement Fund (the "Fund") of the State of California's Public Employees' Retirement System ("CalPERS") under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit District. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 3,026 local public agencies and school districts within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and District contractual agreements.

Copies of CalPERS' annual financial report may be obtained from their Executive Office by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420. A separate report for the District's plan is not available.

Funding Policy and Annual Pension Cost

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by contractual agreements. The individual entry age normal cost method is used to determine the normal cost. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces a level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 2010 and 2009 was \$236,436,000 and \$242,071,000, respectively. The District's 2010 and 2009 payroll for all employees was \$275,151,000 and \$278,804,000, respectively. The District, due to collective bargaining agreements, also reimburses the employees for their contributions, which are 9% for public safety personnel and 7% for miscellaneous covered employees.

The annual required contributions for fiscal year 2010 and 2009 were determined by an actuarial valuation of the Plans as of June 30, 2007 and 2006, respectively. The contribution rates in fiscal year 2010 for the Miscellaneous Plan were 9.311% from July 1, 2009 to October 18, 2009, increased to 9.680% effective October 19, 2009 to June 30, 2010. For the Safety Plan, the contribution rates in fiscal year 2010 were 33.448% from July 1, 2009 to October 18, 2009 and increased to 33.971% from October 19, 2009 to June 30, 2010. The increases in the contribution rates for fiscal year 2010 are due to the Plan amendment which provides that an employee's unused sick leave hours at the time of retirement would be converted to a CalPERS service credit. The amendments to the Plans were a result of the 2009 collective bargaining agreements with the labor unions. The contribution rates in fiscal year 2009 were 9.741% of the Miscellaneous Plan and 32.977% for the Safety Plan.

The three-year trend information for the Fund of the actuarially required employer contribution is as follows (dollar amounts in thousands):

| | Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed (%) | Net Pension Obligation |
|---------------------------|---------------|---------------------------------|-----------------------------------------|------------------------------|
| Miscellaneous Plan | June 30, 2008 | \$ 21,236 | 100% | - |
| | June 30, 2009 | 21,663 | 100% | - |
| | June 30, 2010 | 20,854 | 100% | - |
| Safety Plan | June 30, 2008 | \$ 5,622 | 100% | - |
| | June 30, 2009 | 6,052 | 100% | - |
| | June 30, 2010 | 6,071 | 100% | - |

Funded Status and Funding Progress of the Miscellaneous Plan

As of June 30, 2009, based on CalPERS' most recent actuarial report, the Miscellaneous Plan is 92.4% funded. The actuarial accrued liability for benefits was \$1,520,140,000, and the actuarial value of assets was \$1,405,192,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$114,948,000. The covered payroll (annual payroll of active miscellaneous employees covered by the Plan) was \$222,864,000, and the ratio of the UAAL to the covered payroll was 51.6%.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI), following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Safety Plan

As of June 30, 2009, based on CalPERS' most recent actuarial report, the Safety Plan is 76.7% funded. The actuarial accrued liability for benefits was \$183,177,000, and the actuarial value of assets was \$140,580,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$42,597,000. The covered payroll (annual payroll of active safety employees covered by the Plan) was \$18,373,000, and the ratio of the UAAL to the covered payroll was 231.8%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents three-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

June 30, 2010 and 2009

Actuarial Assumptions and Methods

CalPERS uses the rate stabilization methodologies in its actuarial valuations, which have been shown to be very effective in mitigating rate volatility. A summary of principal assumptions and methods used by CalPERS to determine the District's annual required contributions to the Miscellaneous Plan and Safety Plan is shown below:

| | | | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation Date | June 30, 2009 | June 30, 2008 | June 30, 2007 |
| Actuarial cost method | Entry age normal | Entry age normal | Entry age normal |
| Amortization method | Level percent of payroll | Level percent of payroll | Level percent of payroll |
| Average remaining period | Closed; 18 years as of the valuation date for the Miscellaneous Plan, and 22 years for the Safety Plan | Closed; 13 years as of the valuation date for the Miscellaneous Plan, and 22 years for the Safety Plan | Closed; 14 years as of the valuation date for the Miscellaneous Plan, and 23 years for the Safety Plan |
| Asset valuation method | 15 year smoothed market | 15 year smoothed market | 15 year smoothed market |
| Investment rate of return | 7.75% (net of administrative expenses) | 7.75% (net of administrative expenses) | 7.75% (net of administrative expenses) |
| Projected salary increases | 3.55% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan, and 3.55% to 13.15% for the Safety Plan | 3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan, and 3.25% to 13.15% for the Safety Plan | 3.25% to 14.45% depending on age, service and type of employment for the Miscellaneous Plan, and 3.25% to 13.15% for the Safety Plan |
| Inflation | 3.00% | 3.00% | 3.00% |
| Payroll growth | 3.25% | 3.25% | 3.25% |
| Individual salary growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% |

12. MONEY PURCHASE PENSION PLAN

Most District employees participate in the Money Purchase Pension Plan, which is a supplemental retirement defined-contribution plan. In January 1981, the District's employees elected to withdraw from the Federal Social Security System ("FICA") and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of eligible employees' annual compensation (up to \$29,700 after deducting the first \$133 paid during each month) up to a maximum annual contribution of \$1,868. The non-represented employees receive an additional contribution equal to 1.627% of their annual compensation, which was suspended starting January 2010 as one of the cost-saving measures implemented by the District in fiscal year 2010. The annual compensation limit subject to the additional contribution is established by the Internal Revenue Code Section 401(a) (17). Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this Plan for the years ended June 30, 2010 and 2009 were \$6,019,000 and \$6,807,000, respectively. The Money Purchase Pension Plan assets at June 30, 2010 and 2009 (excluded from the accompanying financial statements) per the Plan administrator's unaudited report were \$233,847,000 and \$222,368,000, respectively. At June 30, 2010, there were approximately 279 (156 in 2009) participants receiving payments under this Plan.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling: BART Investments Plans Committee, 300 Lakeside Drive, Oakland, California 94612, (510) 464-6238.

13. OTHER POSTEMPLOYMENT BENEFITS

In addition to the retirement benefits described in Notes 11 and 12, and specified in the District's contractual agreements, the District provides certain other postemployment benefits ("OPEB") to employees, which may include medical benefits to retirees and surviving spouses, retiree life insurance, survivor dental and vision benefits, and medical benefits to survivors of active employees. Most employees who retire directly from the District or their surviving spouses are eligible for medical benefits if the employee retires at or after age 50 with a minimum of five years of service with the District, elects to take an annuity from CalPERS and makes a timely election of retiree medical benefits.

In 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the District to change its accounting for OPEB from pay-as-you-go to an accrual basis. If an employer elects to fund its OPEB liability, GASB 45 requires that for contributions to be recognized as an offset to the employer's actuarial required contribution, the contributions must be paid out in benefits or irrevocably transferred to a trust or an equivalent arrangement, and legally protected from creditors of the employer. The District implemented the requirements of Statement No. 45 beginning in fiscal year 2008.

On May 18, 2004, the District created the Retiree Health Benefit Trust for the San Francisco Bay Area Rapid Transit District (the "Trust"). The purpose of establishing the Trust is to facilitate the provision of medical benefits and other health and welfare benefits ("retiree medical benefits") for the qualifying retirees of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to participants and beneficiaries; and to defray the reasonable expenses of administering the Trust and designated Plans. Assets placed into the Trust cannot be used for any other purposes and are not available to satisfy general creditors of the District. Under California state law, the restrictions on the use of any proceeds from liquidation of the Trust are significant enough to render the Trust effectively irrevocable. The Trust is administered by one or more Trustees appointed by the District's Board of Directors. Currently, the Board has appointed the District's Controller-Treasurer as the Trustee. The Trust issues a publicly available audited financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to Retiree Health Benefit Trust, San Francisco Bay Area Rapid Transit District, 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

Currently, the Trust covers the funding only for the “retiree medical benefits,” which include retiree health medical benefits and the survivors’ benefits provided to widows and widowers of retirees. It does not fund the “additional OPEB,” which include the retiree life insurance premiums and the survivors’ dental and vision benefits and the medical liability from survivors of active employees. The District has not yet made the decision whether the additional OPEB will be incorporated into the existing Trust or whether a new and separate trust will be established.

Basis of Accounting. The financial statements of the Trust are prepared using the accrual basis of accounting. Beginning with fiscal year 2007, the Trust implemented the GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which established the accounting and financial reporting standards for plans that provide OPEB. The Trust recognizes contributions from the District in accordance with the provisions contained in the District collective bargaining agreements, as described briefly in the following discussion.

Method Used to Value Investments. Investments are reported at fair value as determined by the financial institutions which have custody of the investments based on quoted market prices.

Funding Policy and Long-Term Contract for Contributions. The District’s current collective bargaining agreements with its unions (“CBA”) describe the District’s funding commitments to the Trust. Beginning fiscal year 2008, the District is funding the Trust with a “ramp-up” (increasing) percentage of the “full” annual required contribution (“ARC”) in addition to funding the pay-as-you-go amount outside of the Trust every year for the following six years. Including fiscal years 2007 and 2008, this “ramp-up” contribution funds an eight-year period covering fiscal years 2007 through 2013. The CBAs include the baseline “ramp-up” percentages, which are the minimum amounts that the District is committed to contribute to the Trust during the “ramp-up” period. The District shall commission an actuarial study of the retiree medical insurance plan liabilities and funding needs, including the ARC, every year. The revised “ramp-up” percentage shall be the basis of the District’s contribution to the Trust, except when it is less than the baseline “ramp-up” percentage. In addition, in fiscal year 2009 the District contributed into the Trust a lump sum makeup payment reflecting the amounts it would have contributed for fiscal years 2006 and 2007.

The lump-sum makeup payment is equal to the sum of 3.36% of fiscal year 2007 payroll and 3.22% of fiscal year 2006 payroll, which was actuarially calculated to be \$14,629,000. Beginning fiscal year 2013, the District shall, at minimum, contribute to the Trust each pay period an amount equal to the full GASB-compliant ARC. The CBAs further state that no retiree health insurance premiums will be paid from the Trust prior to July 1, 2013 and that effective July 1, 2013, the District shall direct the Trustee of the Trust to pay the premiums from the Trust.

Funding Policy. The actuarially calculated ARC for fiscal year 2010, as a percent of covered payroll for the year, is 14.01% (16.83% in fiscal year 2009) for retiree medical benefits and 0.95% (0.87% in fiscal year 2009) for additional OPEB, which amounted to \$35,276,000 and \$2,258,000, respectively. In fiscal year 2010, the District contributed cash to the Trust amounting to \$11,532,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In fiscal year 2009, the District contributed cash to the Trust amounting to \$24,940,000 for the retiree medical benefits and zero for the additional OPEB to partially fund the OPEB cost for the year. In addition, the District made payments in fiscal year 2010 on a pay-as-you-go basis, net of retirees' and surviving spouses' share, medical insurance premiums totaling \$11,534,000 for 1,558 retirees and surviving spouses (\$12,561,000 for 1,462 retirees and surviving spouses in fiscal year 2009) and life insurance premiums amounting to \$61,000 (\$154,000 in fiscal year 2009). The District does not charge any administration cost to the Trust. Currently, the retiree pays \$84.41 per month and the survivor \$15.00 per month for their share of the health care premium; the balance is paid by the District. The following tables show the components of the District's annual OPEB cost, the amount contributed to the Trust, pay-as-you-go payments, and changes in the net OPEB obligation for fiscal years 2010 and 2009 (dollar amounts in thousands):

| Retiree Medical Benefits | 2010 | 2009 |
|----------------------------------------|-------------|-------------|
| Annual Required Contribution (ARC) | \$ 35,276 | \$ 40,741 |
| Interest on net OPEB obligation | 1,492 | 1,273 |
| Adjustments to ARC | (1,492) | (1,273) |
| Annual OPEB cost | 35,276 | 40,741 |
| Contributions made | (23,066) | (37,501) |
| Increase in net OPEB obligation | 12,210 | 3,240 |
| Net OPEB obligation, beginning of year | 22,099 | 18,859 |
| Net OPEB obligation, end of year | \$ 34,309 | \$ 22,099 |

| Additional OPEB | 2010 | 2009 |
|----------------------------------------|-------------|-------------|
| Annual Required Contribution (ARC) | \$ 2,258 | \$ 2,106 |
| Interest on net OPEB obligation | 186 | 103 |
| Adjustments to ARC | (186) | (103) |
| Annual OPEB cost | 2,258 | 2,106 |
| Contributions made | (60) | (154) |
| Increase in net OPEB obligation | 2,198 | 1,952 |
| Net OPEB obligation, beginning of year | 4,366 | 2,414 |
| Net OPEB obligation, end of year | \$ 6,564 | \$ 4,366 |

The total net OPEB obligation of \$40,873,000 in fiscal year 2010 and \$26,465,000 in fiscal year 2009 are shown on the statements of net assets as a component of accounts payable and other liabilities.

Notes to Basic Financial Statements

June 30, 2010 and 2009

The three-year trend for the OPEB costs and net OPEB obligation follows (dollar amounts in thousands):

| | Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------------------|---------------|------------------------|--------------------------------------------------|---------------------------|
| Retiree Medical Benefits | June 30, 2008 | \$ 38,839 | 51% | \$ 18,859 |
| | June 30, 2009 | 40,741 | 92% | 22,099 |
| | June 30, 2010 | 35,276 | 65% | 34,309 |
| Additional OPEB | June 30, 2008 | 2,471 | 2% | 2,414 |
| | June 30, 2009 | 2,106 | 7% | 4,366 |
| | June 30, 2010 | 2,258 | 3% | 6,564 |

At June 30, 2010, assets held in the Trust included investment in money market mutual funds, U.S. Treasury obligations, corporate obligations, foreign obligations, foreign stocks, equity mutual funds and domestic common stocks with an aggregate fair value of \$91,204,000 (\$66,743,000 in 2009). These investments are included in the District's financial statements and are restricted to use for payment of retiree medical benefits.

Funded Status and Funding Progress of the Retiree Medical Plan. As of June 30, 2009, based on Keenan's most recent actuarial report, the Retiree Medical Plan is 27.1% funded. The actuarial accrued liability for benefits was \$335,118,000, and the actuarial value of assets was \$68,087,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$267,031,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the Plan) was \$242,071,000, and the ratio of the UAAL to the covered payroll was 110.3%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the three-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress of the Additional OPEB Plan. As of June 30, 2009, based on Keenan's most recent actuarial report, the Additional OPEB Plan is zero percent funded. The actuarial accrued liability for benefits was \$27,297,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,297,000. The covered payroll (annual payroll of active miscellaneous and safety employees covered by the Plan) was \$242,071,000, and the ratio of the UAAL to the covered payroll was 11.3%.

The Schedule of Funding Progress, presented as RSI, following the Notes to Financial Statements, presents the three-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Assumptions and Methods

The latest OPEB actuarial valuation was performed by Keenan and Associates in March 2010 using District data as of June 30, 2009. The actuarial valuation for the fiscal year ended June 30, 2009 and prior years was done by another actuarial company, Mercer. A summary of principal assumptions and methods used by Keenan/Mercer to determine the District's annual required contributions to the OPEB Plans is shown below:

| | | | |
|------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Valuation Date | June 30, 2009 | June 30, 2008 | June 30, 2007 |
| Actuarial cost method | Entry age normal | Entry age normal | Entry age normal |
| Amortization method | Closed, level percent of payroll | Closed, level percent of payroll | Closed, level percent of payroll |
| Remaining amortization period | 25 years | 26 years | 27 years |
| Asset valuation method | Market value | Market value | Market value |
| Discount rate | 6.75% for the Retiree Medical Plan; 4.25% for the additional OPEB | 6.75% for the Retiree Medical Plan; 4.25% for the additional OPEB | 6.75% for the Retiree Medical Plan; 4.25% for the additional OPEB |
| Projected salary increases | CalPERS' assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75% | CalPERS' assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75% | CalPERS' assumptions from the June 30, 2004 pension valuation with a minimum increase of 3.75% |
| Inflation rate | 3.00% | 3.00% | 3.00% |
| Payroll growth | 3.25% | 3.75% | 3.75% |
| Health care cost trend rate for the first year | 8.00% | 10.50% | 10.50% |
| Ultimate trend rate | 4.00% | 5.00% | 5.00% |
| Year that rate reaches the ultimate rate | 2019 | 2024 | 2015 |

14. BOARD OF DIRECTORS' EXPENSES

Total Directors' expenses, consisting of travel and other business-related expenses for the years ended June 30, 2010 and 2009 amounted to \$29,000 and \$38,000, respectively.

15. TRANSIT FINANCING AUTHORITY

The Joint Exercise of Powers Agreement (the "Agreement"), dated August 1, 1991, between the District and MTC provided for the creation of the Transit Financing Authority (the "Authority"), a public instrumentality of the State of California. The initial term of the Agreement was for ten years, unless extended or earlier terminated. On May 1, 1998, the term of the Agreement was extended to August 1, 2010 and was not renewed. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness, and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East Bay and West Bay extensions. The Authority's financial information is presented as a blended component unit of the District's financial statements because the Authority provides services almost exclusively to the District.

The governing board of the Authority consists of two members each from the District and MTC. Neither the District nor MTC is responsible for any debt, liabilities or obligations of the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the two participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

A summary of the amount and percentage of the Authority's total assets, total liabilities and total net assets as compared with the District is as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|----------------------------------------|-------------|-------------|
| Authority's total assets | | |
| Amount | \$ 45,500 | \$ 53,500 |
| As a % of District's total assets | 0.7% | 0.8% |
| Authority's total liabilities | | |
| Amount | \$ 45,500 | \$ 53,500 |
| As a % of District's total liabilities | 2.5% | 2.8% |
| Authority's total net assets | | |
| Amount | \$ - | \$ - |

The Authority issues an annual audited financial report that includes financial statements and required supplementary information. This report may be obtained by contacting the District's Controller-Treasurer at 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

16. RELATED ORGANIZATIONS AND JOINT VENTURE PROJECTS**Capitol Corridor Joint Powers Authority**

The Joint Exercise of Powers Agreement dated December 31, 1996, between the District and five other transportation authorities in surrounding counties ("Agencies") provided for the creation of the Capitol Corridor Joint Powers Authority ("Capitol Corridor"), a public instrumentality of the State of California. Capitol Corridor was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The District is the managing agency of Capitol Corridor and in that capacity shall provide all necessary administrative support to Capitol Corridor. Capitol Corridor entered into an Interagency Transfer Agreement with the State of California and assumed administration and operation commencing on July 1, 1998. The initial term of the Interagency Transfer Agreement was for three years beginning July 1, 1998, and was extended for three additional years effective July 1, 2001. In 2004, state legislation was enacted that eliminated the sunset date of the Interagency Transfer Agreement, which now exists indefinitely.

The governing board of Capitol Corridor consists of six members from the District and two members from each of the five other Agencies. Neither the District nor the other Agencies are responsible for any debt, liabilities and obligations of Capitol Corridor and the District would not be entitled to any of Capitol Corridor's net assets should it terminate.

The District charged Capitol Corridor a total of \$3,368,000 for marketing and administrative services during 2010 and \$3,955,000 during 2009. In addition, Capitol Corridor reimburses the District for its advances for capital project expenditures and other operating expenses. Reimbursements for expenses incurred by the District on behalf of and in providing services to Capitol Corridor are netted against the corresponding expense in the statements of revenues, expenses and changes in net assets. Unreimbursed expenses and capital project costs from Capitol Corridor amount to \$8,071,000 and \$3,856,000 as of June 30, 2010 and 2009, respectively. All unreimbursed expenses are included as current receivables and other assets in the statements of net assets. As the District has no ownership involvement or ongoing financial interest or responsibility in Capitol Corridor, its financial statements include only amounts related to the services it provides to Capitol Corridor.

Technology Reinvestment Project

In 1994, the District and the joint venture of Hughes Transportation Control Systems, Inc. (Hughes) and Morrison Knudsen Train Control, Inc. (HMK) entered into a memorandum of understanding (MOU) to form an alliance (Alliance) to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is more commonly known as the Advanced Automatic Train Control (AATC) project. During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. (Harmon). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK. In February 1998, Harmon and the District executed Contract no. 49GB-110 and the document incorporated the MOU that was later amended in August 1998 to reflect the replacement of HMK by Harmon. In 2000, Harmon was purchased by GE Transportation Systems, and Harmon became known as GE Transportation Systems Global Signaling.

The AATC project has three phases, which are: Phase 1, the prototype phase, which demonstrates the feasibility of the technical concepts through a demonstration of the technology at BART's Hayward test track; Phase 2, the development phase, which implements the pilot system at two BART train stations and on ten control cars to demonstrate the safety of the system; and Phase 3, the implementation phase, which implements the AATC system on eight additional BART train stations and 289 control cars, including training of BART personnel, creation of manuals and obtaining a supply of spare parts.

Phase 1 was completed in 1996, while work on Phase 2 and Phase 3 is still in progress. Phase 1 and Phase 2 were partially funded by the Technology Reinvestment Project managed by the Advanced Research Projects Agency (ARPA). The Alliance handled the disbursements for project costs paid out of the ARPA grant. The District's participation in Phase 1 and Phase 2 included in-kind contributions, which consisted primarily of cost of vehicles and infrastructure use and labor and other direct costs, totaling \$25,848,000, of which \$948,000 was reimbursed by the Alliance. Additional funding for Phase 2 and Phase 3 came from the federal allocations of \$66,844,000, state grants of \$4,728,000, local agency contributions of \$2,393,000 and the District's own funds of \$41,973,000. The total project expenditures through June 30, 2010 for Phase 2 and Phase 3 amount to \$92,886,000 (\$88,533,000 in 2009).

In June 2002, several issues that needed to be resolved to finish the project were discovered in the design. The contractor submitted notices of potential claim in April 2003. In June 2006, after over three years of unsuccessful negotiations on these claims, BART filed a Complaint with the United States District Court, Northern District of California for Rescission, Breach of Contract, Termination of Contract, Specific Performance and Declaratory Relief. Trial was set for August 2010, but taken off the calendar when the parties agreed to settle the matter following mediation by former California Supreme Court Justice Panelli with terms including a payment to the District.

East Bay Paratransit Consortium

In 1994, the District and the Alameda-Contra Costa Transit District ("AC Transit") executed an agreement establishing the East Bay Paratransit Consortium (the "Consortium"). The purpose of the Consortium is to enable the District and AC Transit to jointly provide paratransit services in the overlapping service area of the District and AC Transit. Revenues and expenditures for the Consortium are split 31% and 69% between the District and AC Transit, respectively, and the District's financial statements reflect its portion of revenues and expenditures as operating activities. The District supported the project primarily through its own operating funds, with some financial assistance from Alameda County Measure B funds and from the Contra Costa Transportation Authority Measure J funds (Note 10). The District has no equity interest in the Consortium.

Pleasant Hill BART Station Leasing Authority

In July 2004, the District, the County of Contra Costa ("County") and the Contra Costa County Redevelopment Agency ("Agency") entered into a Joint Exercise of Powers Agreement ("JPA Agreement") to create the Pleasant Hill BART Station Leasing Authority ("Pleasant Hill Authority"). The Pleasant Hill Authority was created as a means of accomplishing the cooperation and coordination among the three agencies to provide for the development of a transit center located in BART's Pleasant Hill Station, which will include residential rental and retail units. The Pleasant Hill Authority leased for a 99-year term expiring on May 14, 2105, a portion of the property owned by BART adjacent to the Pleasant Hill BART Station as the transit center site.

On June 30, 2009, the District received as ground lease payments for the full term of the lease, a cash base rent of \$99 and a noncash base rent in the form of a newly constructed parking structure located at the Pleasant Hill BART Station. The District accepted the completion of the new parking structure and became its new owner, effective June 30, 2009. The new parking structure was recorded as a capital asset at a value of \$51,236,000, which is its final construction cost as reported by its developer, and with a credit to deferred revenue.

The Pleasant Hill Authority is a public entity separate from any member and as such its debts, liabilities and obligations shall not be the debts, liabilities and obligations of any of the members. The governing body of the Pleasant Hill Authority is a Board of Directors consisting of four persons—one of each from the County and the Agency and two from the District.

17. COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. It is the opinion of the District's management that the costs that might be incurred in the disposition of these matters, if any, would not materially affect the District's financial position.

Lease Commitments

The District leases certain facilities under operating leases with original terms ranging from one to 50 years with options to renew.

Future minimum rental payments under noncancelable operating leases with initial or remaining lease terms of over one year at June 30, 2010 are as follows (dollar amounts in thousands):

| Year ending June 30: | Operating Leases |
|---------------------------------|-----------------------------|
| 2011 | \$ 11,177 |
| 2012 | 10,924 |
| 2013 | 10,754 |
| 2014 | 10,759 |
| 2015 | 3,025 |
| 2016-2020 | 12,858 |
| 2021-2025 | 12,572 |
| 2026-2030 | 12,500 |
| 2031-2035 | 12,500 |
| 2036-2040 | 12,500 |
| 2041-2045 | 12,500 |
| 2046-2050 | 12,500 |
| 2051-2053 | 7,292 |
| Total minimum payments | <u>\$ 141,861</u> |

Rent expenses under all operating leases were \$11,093,000 and \$10,852,000 for the years ended June 30, 2010 and 2009, respectively.

June 30, 2010 and 2009

Fruitvale Development Corp.

On October 1, 2001, the District entered into a ground lease agreement with Fruitvale Development Corporation ("FDC") pertaining to 1.8 acres of land for the purpose of constructing thereon portions of a mixed-use development project commonly known as the Fruitvale Transit Village, which was planned to consist of approximately 250,000 square feet of commercial, community service and residential improvements. The lease agreement was effective December 9, 2003, the regular term date, which was also the opening date, and continues through January 31, 2077.

The terms of the lease require FDC to pay the District a Base Rent and a Percentage Rent. The Base Rent is a fixed amount determined at the inception of the lease subject to periodic CPI adjustments. Percentage Rent is calculated equal to 15% of annual net revenues, as defined in the ground lease agreement.

The District provided FDC a Rent Credit with an initial amount of \$7,247,000 to acknowledge its assistance in obtaining grants for the construction of a Replacement BART Commuter Parking Garage near the Fruitvale Transit Village. The Rent Credit earns interest on the outstanding balance at simple interest based on the prime rate and can only be applied to satisfy the Base Rent. Based on the agreement, FDC shall not be under any obligation to make any cash payment to the District for Base Rent at any time that Rent Credit still has a positive balance. Changes in the Rent Credit for fiscal years 2010 and 2009 are summarized as follows (dollar amounts in thousands):

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------------|-----------------|-----------------|
| Rent Credit at beginning of year | \$ 8,971 | \$ 8,823 |
| Annual Base Rent applied against the credit | (112) | (112) |
| Interest credit during the year | 214 | 260 |
| Rent Credit at end of year | <u>\$ 9,073</u> | <u>\$ 8,971</u> |

Sale/Leaseback and Lease/Leaseback Obligations

The District has entered into two leaseback obligations relating to rail traffic control equipment and rail cars.

On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for \$50,383,000 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995 and continues through January 15, 2011. The District recorded a deferred gain on the sale of approximately \$2,015,000, which is equal to the amount of cash received on the sale.

On March 19, 2002, the District entered into a transaction to lease rail traffic control equipment (the "Network") to investors through March 19, 2042 and simultaneously sublease the Network back through January 2, 2018. The District received a head lease payment of \$206,000,000 which is equivalent to the fair market value of the Network at closing. To fulfill its sublease obligations, the District paid approximately \$146,000,000 to a payment undertaker and deposited \$37,000,000 to a trust account. The District received cash from this lease/leaseback transaction amounting to approximately \$23,000,000.

June 30, 2010 and 2009

Employees' Retirement Benefits Schedules of Funding Progress

(dollar amounts in thousands)

Miscellaneous Plan

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll (%) |
|----------------|------------------------------------|---------------------------|---------------------------------------------|--------------|------------------------|-------------------------------------|
| 6/30/07 | \$ 1,307,372 | \$ 1,263,851 | \$ 43,521 | 96.7 | \$ 210,109 | 20.7 |
| 6/30/08 | 1,391,792 | 1,349,563 | 42,229 | 97.0 | 218,889 | 19.3 |
| 6/30/09 | 1,520,140 | 1,405,192 | 114,948 | 92.4 | 222,864 | 51.6 |

Safety Plan

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll (%) |
|----------------|------------------------------------|---------------------------|---------------------------------------------|--------------|------------------------|-------------------------------------|
| 6/30/07 | \$ 151,616 | \$ 120,493 | \$ 31,123 | 79.5 | \$ 16,172 | 192.4 |
| 6/30/08 | 164,993 | 131,846 | 33,147 | 79.9 | 17,721 | 187.0 |
| 6/30/09 | 183,177 | 140,580 | 42,597 | 76.7 | 18,373 | 231.8 |

June 30, 2010 and 2009

**Other Postemployment Benefits
Schedules of Funding Progress**

(dollar amounts in thousands)

Retiree Medical Benefits

| Actuarial Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Payroll (%) |
|--------------------------------|---------------------------------------------|---------------------------------|------------------------------------------------------|-----------------|--------------------|-------------------------------------------|
| 6/30/07 | \$ 418,100 | \$ 43,900 | \$ 374,200 | 10.5 | \$ 230,800 | 162.1 |
| 6/30/08 | 413,300 | 48,500 | 364,900 | 11.7 | 238,800 | 152.8 |
| 6/30/09 | 335,118 | 68,087 | 267,031 | 20.3 | 242,071 | 110.3 |

Additional OPEB

| Actuarial Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Payroll (%) |
|--------------------------------|---------------------------------------------|---------------------------------|------------------------------------------------------|-----------------|--------------------|-------------------------------------------|
| 6/30/07 | \$ 20,000 | \$ - | \$ 20,000 | 0.0 | \$ 230,800 | 8.7 |
| 6/30/08 | 20,600 | - | 20,600 | 0.0 | 238,800 | 8.6 |
| 6/30/09 | 27,297 | - | 27,297 | 0.0 | 242,071 | 11.3 |

Sources and Uses of Operating Funds (Unaudited)

| | FY 2010 | | FY 2009 | |
|----------------------------------------|-------------------|-------------|-------------------|-------------|
| | Amount | Percent | Amount | Percent |
| | (in thousands) | | (in thousands) | |
| Sources of Operating Funds | | | | |
| Transaction and Use Sales Tax | \$ 166,520 | 25% | \$ 184,286 | 29% |
| Passenger Fares | 332,018 | 49% | 318,094 | 49% |
| Property Tax | 30,114 | 5% | 30,356 | 5% |
| Other: | | | | |
| Investment Income and Other | | | | |
| Operating Revenues | 36,613 | 5% | 31,213 | 5% |
| Construction Funds (Capitalized Costs) | 48,636 | 7% | 42,918 | 7% |
| Financial Assistance | 59,428 | 9% | 34,068 | 5% |
| Total – Other | 144,677 | 21% | 108,199 | 17% |
| Total Sources of Operating Funds | <u>\$ 673,329</u> | <u>100%</u> | <u>\$ 640,935</u> | <u>100%</u> |
| Uses of Operating Funds | | | | |
| Maintenance | \$ 195,746 | 29% | \$ 210,410 | 33% |
| Transportation | 167,023 | 25% | 167,241 | 27% |
| General Administration | 130,949 | 19% | 121,399 | 18% |
| Police Services | 47,233 | 7% | 49,607 | 8% |
| Construction and Engineering | 19,939 | 3% | 23,876 | 4% |
| Other: | | | | |
| Capital Designation | 32,853 | 5% | 7,285 | 1% |
| Debt Service Allocation | 68,469 | 10% | 67,685 | 10% |
| Contribution for BART Car Replacement | | | | |
| Funding Exchange Program | 22,683 | 4% | 22,682 | 4% |
| Increase (Decrease) in Net Assets – | | | | |
| General Fund | (11,566) | - 2% | (29,250) | - 5% |
| Total – Other | 112,439 | 17% | 68,402 | 10% |
| Total Uses of Operating Funds | <u>\$ 673,329</u> | <u>100%</u> | <u>\$ 640,935</u> | <u>100%</u> |

Sources and Uses of Capital Funds (Unaudited)

| | FY 2010 | | FY 2009 | |
|--------------------------------|----------------|---------|----------------|---------|
| | Amount | Percent | Amount | Percent |
| | (in thousands) | | (in thousands) | |
| Sources of Capital Funds | | | | |
| District | \$ 104,326 | 29% | \$ 105,161 | 30% |
| Federal | 94,982 | 27% | 53,254 | 15% |
| State | 53,604 | 15% | 59,616 | 18% |
| Local | 103,929 | 29% | 127,562 | 37% |
| Total Sources of Capital Funds | \$ 356,841 | 100% | \$ 345,593 | 100% |
| Capital Expenditures | | | | |
| Construction: | | | | |
| Line | \$ 171,760 | 48% | \$ 196,568 | 56% |
| Systemwide | 136,215 | 38% | 91,587 | 27% |
| Support Facilities | 5,274 | 2% | 5,569 | 2% |
| Total – Construction | 313,249 | 88% | 293,724 | 85% |
| Equipment: | | | | |
| Train Control | 10,575 | 3% | 10,917 | 3% |
| Transit Vehicles | 10,916 | 3% | 13,773 | 4% |
| Automatic Fare Collections | 4,202 | 1% | 7,549 | 2% |
| Management Information Systems | 7,382 | 2% | 3,090 | 1% |
| Other Equipment | 9,330 | 3% | 13,339 | 4% |
| Total – Equipment | 42,405 | 12% | 48,668 | 14% |
| Studies and Other | 1,187 | 0% | 3,201 | 1% |
| Total Capital Expenditures | \$ 356,841 | 100% | \$ 345,593 | 100% |

Performance Highlights (Unaudited)

| | FY10 | FY09 |
|----------------------------------------------------|----------------|----------------|
| Annual passenger trips | 101,003,814 | 106,874,420 |
| Average weekday trips | 334,984 | 356,712 |
| Average trip length | 13.77 | 13.49 |
| Annual passenger miles | 1,390,909,655 | 1,442,123,986 |
| Daily train on-time performance | 93.4% | 93.8% |
| System utilization | 33.3% | 31.7% |
| End-of-period ratios ¹ | | |
| Peak patronage | 56% | 57% |
| Off-peak patronage | 44% | 43% |
| Annual revenue car miles | 63,237,523 | 67,843,137 |
| Passenger accidents/million passenger trips | 5.26% | 5.27% |
| Passenger crimes/million passenger trips | 8.97% | 11.25% |
| Net passenger revenue | \$ 332,017,770 | \$ 318,094,325 |
| Other operating revenue | \$ 36,670,388 | \$ 31,213,150 |
| Total operating revenue | \$ 368,688,158 | \$ 349,307,475 |
| Net operating expense | \$ 512,254,491 | \$ 529,615,530 |
| System farebox ratio ² | | |
| Net pass revenue/net operating expense | 64.8% | 60.1% |
| System operating ratio ² | | |
| Total operating rev/total operating expense | 72.0% | 66.0% |
| Net rail passenger revenue/passenger mile | \$ 0.2387 | \$ 0.2206 |
| Rail operating cost/passenger mile | 35.2¢ | 35.7¢ |
| Net average rail passenger fare including FastPass | \$ 3.28 | \$ 2.97 |

Notes:

1 Six-hour peak period (three hours a.m. and three hours p.m.)

2 FY07, FY08, FY09 and FY10 exclude \$23M extraordinary expense. Under a BART/MTC fund exchange program, MTC programs federal funds to current BART projects and BART deposits an equal amount of local funds in a Reserve Account designated for BART's future rail car replacement program.

BART Board of Directors Fiscal Year 2010

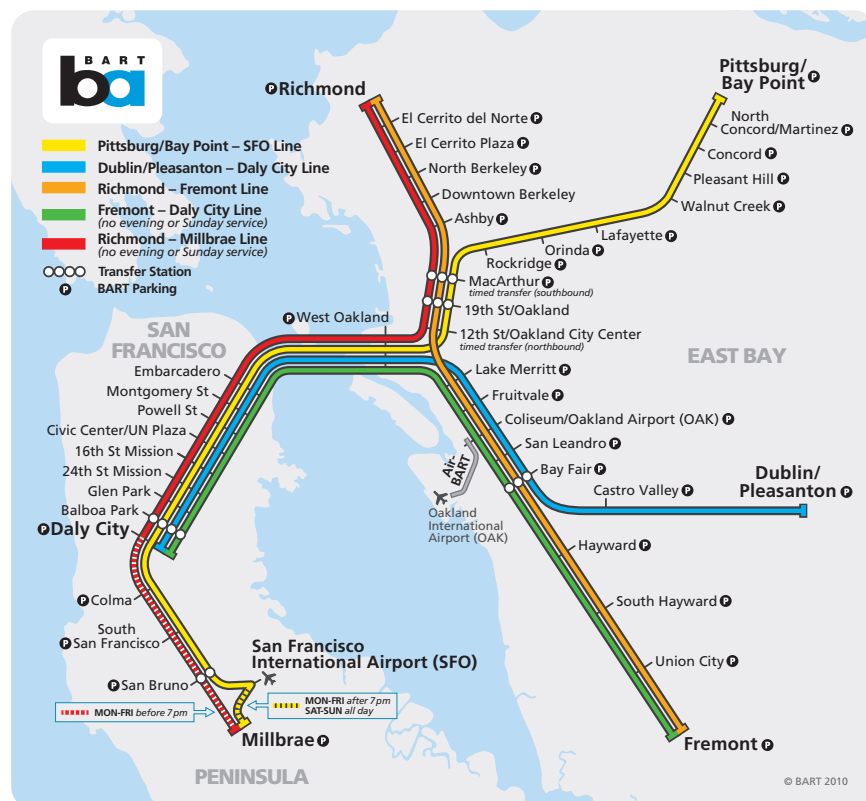
| | |
|--------------|---------------------------|
| James Fang | President - San Francisco |
| Bob Franklin | Vice President - Berkeley |

Members of the Board Fiscal Year 2010

| | | |
|-------------------|------------|---------------|
| Gail Murray | District 1 | Orinda |
| Joel Keller | District 2 | Antioch |
| Bob Franklin | District 3 | Berkeley |
| Robert Raburn | District 4 | Oakland |
| John McPartland | District 5 | Dublin |
| Thomas M. Blalock | District 6 | Fremont |
| Lynette Sweet | District 7 | San Francisco |
| James Fang | District 8 | San Francisco |
| Tom Radulovich | District 9 | San Francisco |

Board Appointed Officers Fiscal Year 2010

| | |
|-------------------|----------------------|
| Dorothy W. Dugger | General Manager |
| Matthew Burrows | General Counsel |
| Scott Schroeder | Controller/Treasurer |
| Ken Duron | District Secretary |



- Established in 1957 by the California State Legislature.
- Authorized to plan, finance, construct and operate a rapid transit system.
- Governed by the Board of Directors elected for four-year terms by voters in nine election districts within the counties of Alameda, Contra Costa and San Francisco.

The Annual Report is published by the San Francisco Bay Area Rapid Transit District pursuant to Section 28770, Public Utilities Code of the State of California.

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